



# Jilin Province Chuncheng Heating Company Limited \*

## 吉林省春城热力股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)  
Stock code : 1853

### ANNUAL REPORT 2020



\* For identification purpose only

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## CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2020, China achieved significant results in coordinating the prevention and control of the pandemic and the economic and social development. The building of a new development landscape was accelerated and high-quality development was further implemented. The PRC is the first among the world's major economies to achieve positive economic growth in 2020, with gross domestic product reaching a new high of RMB100 trillion.

As the PRC's economy continues to grow and its policies gradually opening up, the nation's heat supply industry maintains a strong momentum of development. Demand for heat in cities and towns of the PRC continues to grow in line with the progress of urbanisation, heat supply technology gradually integrates with actual production, heat supply concepts gradually converge with environmental protection, and quality of heat supply is improving in tandem with public's access, with the overall heat supply market showing a good development trend. The development potential of the heat supply market remains huge with a focus on such development elements such as area expansion, technological innovation and environmental standard improvement.

Throughout the past year, the Group had always regarded its corporate mission of "leading the development of the industry and sincerely serving the society (引領行業發展·真誠服務社會)" as its inner driving force, and has been fulfilling its social responsibility as well as sincerely serving the community. At the height of the pandemic in the region, the Group made every effort to ensure the stability of heat supply in its service area to protect and safeguard people's work and livelihood.

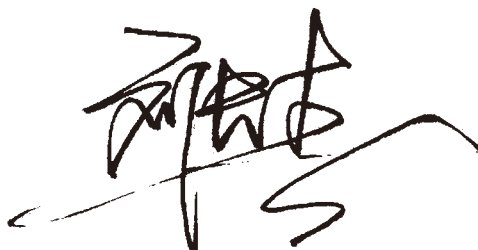
In recent years, as the nation vigorously promotes clean energy heating methods and deploys environment plans aiming to "win the war on keeping the skies blue (打贏藍天保衛戰)", the Group has actively seized the opportunity of industry reform, actively explored clean heating models, comprehensively promoted scientific and innovative technologies, and contributed positively to the prosperous development of the heat supply industry. From research and development of every practical heating technology, to application and upgrade of the "smart heating network (智慧熱網)", and exploration of the "China Clean Heating 2025 (中國清潔供熱2025)" model, the Group strives to drive production with technology and reward society with blue skies.

In 2020, the Group achieved steady growth for its operating results and continued to enhance its brand value. On 3 December, the Group was awarded the "Most Valuable Listed Company for Investment (最具投資價值上市公司)" in the 10th China Securities Golden Bauhinia Awards (中國證券金紫荊獎). In the future, the Group intends to make a push for the A-share market, with a view to enabling more investors, both domestic and overseas, to share the benefits of the Group's development.

In 2021, the world economy is expected to fully recover and the PRC's economy will continue to grow steadily. Demand for heat will continue to grow, driven by eco-environmental protection, the concept of green development and environmental policies such as the construction of "beautiful rural areas". The Group will continue to upgrade its smart heating technology and deepen the concept of ultra-low emission to further enhance energy efficiency and promote the stable and orderly development of the Group.

With the support of all Shareholders, I believe that the management team of the Company is poised to achieve better results and create greater value for our Shareholders and society.

**Liu Changchun**  
Chairman



# GENERAL MANAGER'S REPORT

Dear Shareholders,

In 2020, the Group fully analysed the development trend of China's heating industry and, under the leadership of the Board of Directors, refined the management of heating services, vigorously developed technological innovation, continuously increased safety investment, effectively controlled the impact of the COVID-19 pandemic and achieved steady growth in operating results.

## 1. Business Operations

As at 31 December 2020, the revenue from heat supply business amounted to RMB1,427.83 million, representing a year-on-year increase of 48.62%. The revenue from construction, maintenance and design services amounted to RMB469.12 million, representing a year-on-year decrease of 21.90%. Liquidity and cash flow of the Group remained healthy.

## 2. Production Safety

The Group attaches great importance to work safety. The Group has invested RMB8.15 million in safety production for the year, representing a year-on-year increase of 58.25%. 5 safety committee meetings and 7 production safety meetings were held; 48 safety trainings and 68 emergency drills were organized; and 22 inspections on grassroots level led by the management and 182 inspections led by the safety management department were conducted with a potential hazard rectification rate of 100%. There were no production safety incidents throughout the year.

## 3. Scientific and Technological Innovation

In 2020, the Group focused on strengthening the transformation of scientific and technological achievements and continued to strengthen the upgrading of the smart heating network system by enhancing the innovation capability of the Group, and is currently focusing on two research and development projects, namely the "Smart Heating Network System (智慧熱網系統)" and the "3D Pipeline System (三維管線系統)". The Group had obtained a total of 20 invention patents, utility model patents and appearance patents issued by the National Intellectual Property Administration and 63 computer software copyright certificates issued by the National Copyright Administration during the year.

## 4. Cost Control

The Group has adopted aggressive and effective cost control measures to improve the optimisation level of cost management. Through the monitoring and management of the annual operating plan, costs, including production costs, procurement costs and labor costs, were effectively controlled. In 2020, the inspection and maintenance work for a total of 13,900 heat-supply facilities and the repair and renovation work of primary distribution pipelines of 3.6 km were conducted. Meanwhile, the improvement of internal management and training together with the application of innovative technologies such as the "Smart Heating and Energy Saving Monitoring Platform (智慧供熱節能監控平台)" have effectively enhanced employee productivity and further reduced labor costs.

## 5. Merger and Acquisition

In 2020, the Group successfully completed two major acquisitions in line with its corporate development plan: the acquisition of 50% equity interest in Xixing Energy and the acquisition of 100% equity interest in Yatai Heating. Upon completion of the acquisitions, Xixing Energy and Yatai Heating became wholly-owned subsidiaries of the Group, enabling the Group to rapidly expand the scale of its principal business, increasing its heating area to 60.2 million sq.m. which represented an increase of 52.41%, increasing its heat supply customers to 505,788 households which represented an increase of 57.89%, and significantly enhance its overall corporate strength and brand influence.

## 6. User Services

The Group has always adhered to the concept of comfortable heating and implemented a grid-based management model for the heat service areas to further enhance the quality and efficiency of heating services. As at the end of 2020, a total of 886 WeChat heat supply service accounts were created, covering approximately 212,500 users. Moreover, the Group proactively carried out home visit activities and visited over 300,000 household users throughout the year. The combination of online and offline channels has enhanced service quality with an overall decrease in user complaint rate by 18.8%, which indicates a significant improvement in society's recognition.


## GENERAL MANAGER'S REPORT

### 7. Construction, Maintenance and Design Services

In recent years, our nation's fixed asset investment has gradually shifted its focus towards municipal infrastructure construction, and infrastructure construction have been steadily increasing for public service industries. By leveraging on this opportunity, the Group's construction, maintenance and design services business shall grow steadily in 2020. In addition to the overall closeout of works related to the "three supplies and property management (三供一業)" projects, the Group actively competed in the market and was awarded a number of municipal projects on heat supply maintenance and renovation and heat pipeline relocation, which helped enhance our project management level and brand image while generating revenue for the Group. The Group's design business has made breakthroughs in enhancing its corporate strength and obtained the Grade A Qualification Certificate of Professional Engineering Design for Municipal Industries (Thermal Engineering) (市政行業 (熱力工程) 專業工程設計資質甲級證書) issued by the Ministry of Housing and Urban-Rural Development of the People's Republic of China in September 2020.

The PRC achieved excellent results in the prevention and control of the COVID-19 pandemic which created a good opportunity for Chinese companies to grow. In 2021, the Group will keep up with the development of our nation, study our nation's policies and regulations, seize the opportunity of clean energy development, promote the development of smart heating and contribute to the PRC's goal of achieving "carbon neutrality".

Yang Zhongshi  
General Manager



## CORPORATE PROFILE

Jilin Province Chuncheng Heating Company Limited\* (吉林省春城熱力股份有限公司) was established on 23 October 2017 and the H Shares of which were listed on the Hong Kong Stock Exchange on 24 October 2019 (stock code: 1853). Located at Changchun City, Jilin Province, the Company is engaged in the provision of heat supply services for approximately 500,000 residential and non-residential users in Changchun. As at the reporting period, the heat service area of the Group was approximately 60.2 million sq.m..

The Group has more than 20 years of operating history in the provision of heat supply services and has established a leading position in the industry. We mainly transmit heat to the main municipal areas in Changchun using the cogeneration technology, the best heat supply mode in the industry which is energy-saving, efficient and environmentally-friendly.

As of the reporting date, the Group has 10 wholly-owned subsidiaries that engage not only in the heat supply business, but also the provision of construction, maintenance and design services. Leveraging on our high level of qualifications and industry permits, we have extended the coverage of our engineering construction, equipment maintenance and repair and engineering design businesses to most areas in northeast China, gaining a relatively high market share.

## FINANCIAL SUMMARY

### Combined Income Statement

	For the year ended 31 December				
	2020 (RMB'000)	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)
Revenue	1,896,949	1,561,415	1,440,159	1,108,373	848,431
Gross profit	301,470	287,169	224,674	188,008	120,874
Profit before tax	204,436	180,304	139,283	115,219	99,598
Income tax expense	(39,220)	(46,333)	(36,606)	(29,387)	(26,804)
Profit for the year	165,217	133,971	102,677	85,832	72,794

### Combined Statement of Financial Position

	As at 31 December				
	2020 (RMB'000)	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)
Total non-current assets	1,353,607	1,624,382	1,028,460	1,366,909	1,250,231
Total current assets	1,876,760	1,800,061	1,187,799	1,290,190	1,245,839
Total current liabilities	2,223,228	1,991,877	1,178,551	1,649,596	1,386,105
Total assets less current liabilities	1,007,139	1,432,566	1,037,708	1,007,503	1,109,965
Total non-current liabilities	128,994	168,139	535,392	714,774	666,487
Net assets	878,145	1,264,427	502,316	292,729	443,478

#### Notes:

- The summary of the consolidated results and financial position of the Group for the year ended 31 December 2016, 2017 and 2018 are extracted from the prospectus of the Company dated 27 September 2019 (the "Prospectus").
- The accounting standard has been changed from IFRS to ASBE pursuant to the Company's announcement dated 22 December 2020 and circular dated 15 January 2021. The financial information for the year ended 31 December 2016, 2017 and 2018 were prepared under IFRS while the financial information for the year ended 31 December 2019 and 2020 were prepared under ASBE.

## MANAGEMENT DISCUSSION AND ANALYSIS

### I. INDUSTRY OVERVIEW

In recent years, with the rapid growth of China's urbanization rate, as well as the driving force of economic development, the central heat service industry has always maintained a growing trend, with the coverage of heat service area and the quality of heating service both improving significantly. The heat supply industry still has huge room for development in the future.

According to industry data, the total urban central heat service area in China increased from 6.72 billion sq.m. in 2015 to 9.25 billion sq.m. in 2019, representing a compound annual growth rate of 8.32%. The total urban central heat service area in the northeast region increased from 2.15 billion sq.m. in 2015 to 2.63 billion sq.m. in 2019, representing a compound annual growth rate of 5.17%.

Urban heat supply can be divided into cogeneration, coal/gas-fired boilers, industrial waste heat, heat pumps and other heat sources (such as geothermal energy and solar energy) based on supply sources. Due to increasing concerns over thermal efficiency and pollutant emission level, heat supply methods that are efficient and environmentally friendly such as cogeneration and industrial waste heat have been strongly promoted in recent decades, which has not only accelerated the development of the Group's heat supply business, but also effectively driven the growth of its construction, maintenance and design businesses.

The National Energy Administration of the PRC strongly advocates the use of a variety of renewable energy sources for heating purposes in northern China, adhering to the development concepts of "prioritising ecological conservation and boosting green development (生態優先、綠色發展)", and the use of renewable energy for heating has become an urgent need for the PRC to adjust its energy structure, cope with climate change and to reasonably control the total energy consumption, as well as an inevitable choice to achieve the target of utilising non-fossil energy, building a clean and low-carbon society and achieving sustainable energy development. Policy guidance will also help heat supply companies to gain further community support on their road to develop other renewable energy sources for heating.

In addition, the PRC government has continued to give preferential tax incentives to heat supply companies in northern China and exempted the value-added tax on income from heat supply fees received by heat supply companies for supplying heat to residents, reflecting the PRC government's utmost concern and strong support for the heating industry, which is conducive to the sustainable operation and development of heat supply companies.



# MANAGEMENT DISCUSSION AND ANALYSIS

## II. BUSINESS REVIEW

In 2020, amidst the severe challenges posed by the COVID-19 pandemic and the complex and ever-changing domestic and international environment, the Group persisted in focusing on quality and efficiency powered by reform and innovation, continued to enhance its overall corporate strength, increased investment in technology research and development and broadened the channels for nurturing talents, all of which have enabled the Group to maintain its leading position in the domestic smart heating sector. During the Reporting Period, the quality of the Group's heating services improved steadily while the scale of the construction, maintenance and design services continued to expand. The Group achieved remarkable results in mergers and acquisitions within the industry and overall operating results grew steadily compared with last year.

### (1) Heat Supply Business

As of the end of 2020, the Group was the largest heat service provider in Jilin Province. Heat supply is our core business. Over two decades' operating history of heat supply enabled the Group to accumulate extensive experience in the heating industry and establish its leading position in the industry. The Group's heat supply business mainly adopts the clean heating model of purchasing heat from power plants through a smart heat supply network system, which enabled us to carry out our heat supply business with precision and efficiency.

During 2020, the scale of the Group's heat supply business and revenue from heat supply business increased significantly due to the successful acquisition of 50% equity interest in Xixing Energy and 100% equity interest in Yatai Heating. As at 31 December 2020, the Group's heat service area was 60.20 million sq.m., representing an increase of 20.70 million sq.m. or 52.41% from 39.50 million sq.m. in 2019. As for the number of heat supply users, as at 31 December 2020, the Group had 505,788 heat supply users, representing an increase of 185,455 users or 57.89% from 320,333 users in 2019. As at 31 December 2020, the Group's revenue from heat supply business was RMB1,427.83 million, representing an increase of RMB467.13 million or 49% from RMB960.7 million in 2019.

#### 1. The Company

##### Customers

Customers of our heat supply business are generally residential and non-residential users within the Company's heat service area. The table below sets out a breakdown of number of, and revenue contribution by, residential and non-residential users as at 31 December 2020.

	As at/for the year ended 31 December		As at/for the year ended 31 December	
	2020	% of revenue from heat supply and distribution	2019	% of revenue from heat supply and distribution
	Number of customers		Number of customers	
Residential users <sup>(1)</sup>	285,174	64.42%	285,146	66.2%
Non-residential users <sup>(2)</sup>	35,278	35.58%	35,187	33.8%
<b>Total</b>	<b>320,452</b>	<b>100%</b>	<b>320,333</b>	<b>100%</b>

Notes:

- (1) The number of residential users is per household.
- (2) Non-residential users include commercial users and other users which primarily include industrial users, corporate users and underground car park.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Heat procurement*

In 2020, the Company continued its operation of clean heating through cogeneration, and provided heat supply service covering an area of 40.27 million sq.m. in Changchun. The Company's heat source providers are three large cogeneration plants in Changchun, in particular, our primary pipelines are the only primary heat supply pipelines connecting No.4 Cogeneration Plant and No.5 Cogeneration Plant to the inner urban areas of Changchun. Through the integrated heat distribution network and effective control under the smart heat supply network system, the heat efficiency and safety of the Company had been further improved, and we were able to control the distribution of heat purchased to a certain extent, thus established a lead in the heat supply market of Changchun. Currently, the heat purchased from the cogeneration plants is able to meet all of the Company's needs for its heat supply business.

According to the notice issued by Changchun Municipal Development and Reform Commission on 19 October 2020, starting from the heat supply period of 2020-2021, the ex-factory price of heat supply of the cogeneration enterprises has been adjusted to RMB36/GJ (9% VAT included). As at 31 December 2020, the total heat procurement by the Group amounted to 21.05 million GJ and 13.91 million GJ of heat was used for the Company's heat production purpose.

### *Heat transmission*

As at 31 December 2020, approximately 7.14 million GJ of heat procurement quota obtained from the cogeneration plants by the Company was transferred to five heat service providers (including Yatai Heating). We received a total heat transmission fee of RMB21.43 million, representing an increase of 79.33% from that of 2019. Heat procured from the cogeneration plants is first used to satisfy our own needs for heat supply.

The following table sets forth the breakdown of the usage of the Company's heat procurement as at 31 December 2020:

	<b>As at/for the year ended</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
Estimated heat procurement quota (GJ) <sup>(1)</sup>	<b>20,800,000</b>	19,283,333
Heat procurement quota transferred (GJ) <sup>(2)</sup>	<b>7,141,418</b>	5,655,926
Actual consumption (GJ) <sup>(3)</sup>	<b>13,908,768</b>	14,180,965
Total heat procured (GJ) <sup>(4)</sup>	<b>21,050,186</b>	19,836,891
Utilization rate <sup>(5)</sup>	<b>66.9%</b>	73.5%
Heat service area (million sq.m.) <sup>(6)</sup>	<b>40.27</b>	39.50

## MANAGEMENT DISCUSSION AND ANALYSIS

### Notes:

- (1) The heat procurement quota was an estimate of the heat procurement prior to each heat supply period based on the historical heat procurement amount.
- (2) During the Reporting Period, we transferred certain portion of procured heat to five other heat service providers. We charged heat transmission fees accordingly.
- (3) Actual consumption of heat procured by us represents the aggregate amount of actual heat supply and consumption data each month as recorded by a measuring equipment and reviewed and agreed by each of five local cogeneration plants and us.
- (4) The total heat procured was the sum of heat procurement quota transferred and the actual consumption. Procurement of heat exceeding the estimated heat procurement quota is subject to the supplemental agreements between the cogeneration plants and us.
- (5) Utilization rate of heat procurement is calculated by dividing the actual consumption by the estimated heat procurement quota.
- (6) Gross floor areas covered by heat supply include heat service area which we fully or partially charge for heat fees.

### *Smart heat supply network system*

In 2020, with an emphasis on strengthening the transformation of scientific and technological results and by focusing on improving the corporate innovation capacity, the Company continued to strengthen the construction of smart heat supply network system and is currently working on two research and development projects:

1. Big data system for smart heat supply
  - (1) Completed the vertical correlation arrangement of the data relationships between the “energy-saving monitoring platform for smart heat supply (智慧供熱節能監控平台)”, the “heat supply billing management system (供熱計費管理系統)” and the “customer service management system for heat supply (供熱客戶服務管理系統)”; further completed the horizontal correlation arrangement of the three systems by using user as the linkage point; and fixed the problem of inconsistent correspondence of the data dictionary<sup>(1)</sup> through user and system matrices.
  - (2) Established a star schema for data exchange; and completed the co-sharing arrangement and the mechanism definition for each system, including entry-based planning<sup>(2)</sup> and memory-based planning.
  - (3) Built a cross-system joint<sup>(3)</sup> statistical analysis model that can support statistics and presentation in any time and space domain.
  - (4) Implemented the Company’s desktop<sup>(4)</sup> display system, including: production information, operational information, asset information and service information.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 2. 3D pipeline system

- (1) Completed the construction of a GIS-based<sup>(5)</sup> database; and established a scheme for core graphical symbols and vector data of the heat supply elements.
- (2) Formulated mapping relations between 3D definitions, rendered definitions and data; and completed the 3D production of subdivisions, buildings, communication pipelines and thermal pipelines.
- (3) Developed interface definitions between 3D images and various types of data; completed predefined layers for data presentation to interaction.

Notes:

- (1) Data dictionary is a database accessible by users and a catalog for application metadata.
- (2) Entry means writing data safely to magnetic disks.
- (3) Joint means jointly establish.
- (4) Desktop means the display interface of the big data system.
- (5) GIS (Geographic Information System) is a computer system for inputting, storing, checking, analysing and displaying geographic data.

### *Heat supply emergency repair*

The Company always upholds a philosophy of “timely emergency repair and strong protection (搶修及時·保障有力)” and attaches great importance to the quality of heating service while always ensuring safe and stable operation of heat supply network as a prerequisite for heat supply. During the non-heating period, the Company has prepared a scientific summer inspection and repair plan containing meticulous planning and a clear division of labor, coupled with mutual cooperation and supervision between the management personnel and the repair team, all of which helped standardize and evaluate the repair work and laid a solid foundation for the stable operation of heat supply during the heating period. The Company has handled a total of 101 cases of emergency repairs of all kinds this year, and has carried out such repair and maintenance in strict accordance with the heat supply emergency repair program and procedures.

### 2. *Xixing Energy*

Xixing Energy is mainly engaged in heat production and supply, hot water supply, construction of heat supply pipelines and maintenance of heat supply facilities, with a heat supply service coverage covering Luyuan District and the Automotive Industries Development Area of Changchun. As at 31 December 2020, Xixing Energy had a heat supply area of 3.46 million sq.m. and a total of 30,829 users, including 27,921 residential users and 2,908 non-residential users. During 2020, Xixing Energy’s actual heat output to its heat supply area totaled 1.10 million GJ, of which 0.61 million GJ was produced internally and 0.49 million GJ was purchased heat.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. *Yatai Heating*

Yatai Heating is a heat supply company mainly engaged in heat service business, with a focus in cogeneration supplemented by procurement of heat from coal-fired boilers. At present, Yatai Heating's heat supply service covers Chaoyang District, Nangan District, Erdao District, Luyuan District and the Automotive Industries Development Area of Changchun.

As at 31 December 2020, Yatai Heating had a heat supply area of 16.47 million sq.m. and a total of 154,507 users, including 135,937 residential users and 18,570 non-residential users. During 2020, Yatai Heating's actual heat output to its heat supply area totaled 6.15 million GJ.

## (2) **Construction, Maintenance and Design Services**

The Group's construction, maintenance and design services cover the peripheral services business of the heat supply industry chain. Our main services include engineering construction, engineering maintenance, design services and electrical instrument maintenance. These services mainly cover northeast China. For the year ended 31 December 2020, revenue generated from the Group's construction, maintenance and design services amounted to RMB469.12 million, representing a decrease of RMB131.58 million, or 21.9%, from RMB600.7 million in 2019.

### 1. *Engineering construction*

For the year ended 31 December 2020, revenue generated from engineering construction amounted to RMB247.25 million, representing a decrease of RMB119.15 million, or 32.51%, from RMB366.4 million in 2019. This was mainly due to the completion of the "Three Supplies and Property Management (三供一業)" projects in 2020.

In 2020, our engineering construction business was mainly focused on the following: 1) maintaining steady development in Changchun while actively expanding the engineering projects in other cities in Jilin Province, adopting the strategy of using multiple teams for separate follow up, focusing on solving key and difficult issues in engineering projects; 2) accelerating the closeout of works related to the "Three Supplies and Property Management (三供一業)" projects of Shenyang Railway Group; 3) strengthening production safety and epidemic prevention, control and management to ensure that no major safety incidents occur in engineering construction projects throughout the year.

### 2. *Engineering maintenance*

For the year ended 31 December 2020, revenue generated from engineering maintenance amounted to RMB192.58 million, representing a decrease of RMB28.22 million, or 12.78%, from RMB220.8 million in 2019. This was mainly due to a decrease in external engineering work as compared with the previous period.

In 2020, our engineering maintenance business was mainly focused on the following: 1) expanding the scope of heat supply projects in other cities within Jilin Province and completing the upgrade and renovation for a number of heat supply systems, equipment and facilities with high quality, efficient and comprehensive services. Due to the impact of the pandemic and related force majeure events, certain external works could not be carried out and the workload was partially reduced compared to the previous period; 2) carrying out geothermal cleaning, appliance cleaning and other convenience services to further increase the revenue of other businesses.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. *Design services*

For the year ended 31 December 2020, revenue generated from design services amounted to RMB17.78 million, representing an increase of RMB8.08 million, or 83.32%, from RMB9.7 million in 2019. The was mainly due to a new customer, Yanji Heating Company, was acquired during the period and various engineering design works were provided to this company.

In 2020, the design services business was mainly focused on the following: 1) obtaining a number of qualification certificates: Grade B Qualification Certificate of Engineering Cost Consulting Enterprises (工程造價諮詢企業乙級資質證書) issued by the Department of Housing and Urban-Rural Development of Jilin Province, Grade B Credit Qualification Certificate of Engineering Consulting Unit (工程諮詢單位乙級資信證書) issued by Jilin Association of Engineering Consultants, and Grade A Qualification Certificate of Professional Engineering Design for Municipal Industries (Thermal Engineering) (市政行業(熱力工程)專業工程設計資質甲級證書) issued by the Ministry of Housing and Urban-Rural Development of the People's Republic of China; 2) further increasing investments in scientific and technological innovation and R&D projects, adding 4 utility model patents authorized by the China National Intellectual Property Administration, obtaining 11 software copyrights issued by the National Copyright Administration of the People's Republic of China, and publishing 8 papers in National Periodicals; 3) carrying out school-enterprise cooperation with Jilin University and Changchun Institute of Technology, adding 5 new collaboration R&D projects and using the technological research results on smart technologies to continuously help the Group transform into a new modern enterprise.

### 4. *Instrument maintenance*

For the year ended 31 December 2020, revenue generated from instrument maintenance amounted to RMB2.72 million, representing an increase of RMB2.59 million, or 1,992%, from RMB0.13 million in 2019. The was mainly due to the acquisition of a subsidiary customer, namely Yanji Heating Company, and two new projects in relation to installation and commissioning work and sales of material during the period.

In 2020, the instrument maintenance business was mainly focused on the following: 1) expanding the business of manufacturing, installation and alteration of inverter cabinets on the basis of undertaking instrument inspection and maintenance and inverter maintenance; 2) achieving full coverage for the instrument inspection and maintenance business in the heat supply industry and enhancing the core competitiveness of the instrument inspection and maintenance business; 3) obtaining 13 software copyright certificates issued by the National Copyright Administration; 4) obtaining the certificate of high-tech enterprise issued by the Department of Science and Technology of Jilin Province.

### (3) **Safety Management**

The Group strictly follows the safety production policy of "safety first, with focus on prevention and implementing comprehensive management (安全第一、預防為主、綜合治理)", continues to increase its effort in safety management, strives to improve the construction of a standardized production safety management system and strictly implements every production safety management system. Through the strengthening of safety education and training, supervision of production safety, investigation and rectification of safety hazards, safety review and construction safety management, the overall safety management level was continuously enhanced. During the Reporting Period, there were no major safety accidents in the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (4) Technology and Research and Development

In 2020, the Group established a technology research and development centre and put technological innovation as an important strategic layout for the future development, actively explored the possibility of in-depth integration between traditional heating model and “new infrastructure (新基建)”, continuously enhanced the important roles of information technology and digitalisation in the field of heat supply, and successfully improved the corporate management and operation. During the year, the Group had obtained a total of 20 invention patents, utility model patents and appearance patents issued by the National Intellectual Property Administration and 63 computer software copyright certificates issued by the National Copyright Administration, fully demonstrating its effort in technological innovation.

The Group has closely integrated its technological research and development with actual heat supply and production, and has implemented a total of 14 technological research and development projects, including the “Smart Heat Supply Network Big Data System (智慧熱網大數據系統)” and the “Circulating Pump Energy Saving Retrofit (循環泵節能改造)”, all of which have made substantial progress. As research and development progress gradually lead to actual production, technological transformation within the heat supply business will be promoted from different directions.

### (5) Honors and Awards

On 3 December 2020, the Group was awarded the “Most Valuable Listed Company for Investment (最具投資價值上市公司)” in the 10th China Securities Golden Bauhinia Awards (中國證券金紫荊獎) and Mr. Liu Changchun, chairman of the Group, was honoured with the “Outstanding Entrepreneur of the Year (年度卓越企業家)” award.

### (6) Social Responsibility

The Group has always taken the corporate mission of “leading the development of the industry and sincerely serving the society (引領行業發展·真誠服務社會)” as its inner drive to push forward, taken up social responsibility courageously and served the public with huge dedication, which helped contribute to the progress being made in the heat supply business and the stability of the people’s livelihood.

In 2020, the Group actively served the public, helped maintain social stability and demonstrated its responsibility as a state-owned enterprise when the COVID-19 pandemic broke out. During the pandemic, each heat supply business segments had set up their own special team for heat supply assurance to ensure stable heating for all social businesses.

At a time when the city’s blood inventory was unable to meet clinical demand due to the pandemic, the Group responded positively to the call for blood donation by co-ordinating and organising a blood donation campaign.

The Group used innovative service practices through the Internet to improve the quality of heat supply service. In order to open up channels for users’ opinions and suggestions and to solve actual heat supply problems, the Group has actively established 886 heat supply chat channels (one channel per small community) to release relevant heat supply information in a timely manner and solve users’ demands in real time.

The Group always attaches great importance to the protection of environment in the course of its heat supply operations, adheres to the principle of sustainable development and ensures that the level of environmental protection meets national standards by enhancing the construction of environmentally-friendly facilities and implementing measures like rational use of resources, energy conservation and waste treatment.

## MANAGEMENT DISCUSSION AND ANALYSIS

### III. FINANCIAL POSITION AND OPERATING RESULTS

#### (1) Operating Revenue

The Group's revenue increased by 21.49% to RMB1,896.95 million in 2020 as compared with RMB1,561.42 million in 2019, primarily due to the increase in the Group's heat supply business as a result of the acquisition of Xixing Energy and Yatai Heating during 2020. (i) Revenue from heat supply business of the Group increased by 48.62% to RMB1,427.83 million in 2020 as compared with RMB960.7 million in 2019, primarily due to the acquisition of two heat supply companies, namely Xixing Energy and Yatai Heating, and the increase in heat supply area of the Group during the period; (ii) revenue from construction, maintenance and design business decreased by 21.90% to RMB469.12 million in 2020 as compared with RMB600.7 million in 2019, primarily because the Group has completed its "Three Supplies and Property Management (三供一業)" projects in 2020, which resulted in a decrease in revenue.

The respective segment revenue of the Group is set out as follows:

	2020 RMB'000	2019 RMB'000	Change in percentage
<b>Heat supply, of which:</b>			
– Provision and distribution of heat	1,347,567	894,540	50.64%
– Pipeline connection fee	65,560	54,233	20.89%
– Heat transmission	14,705	11,951	23.04%
Subtotal	1,427,832	960,724	48.62%
<b>Construction, maintenance and design services, of which:</b>			
– Engineering construction	247,253	366,412	(32.52%)
– Engineering maintenance	192,575	220,774	(12.77%)
– Design services	17,781	9,743	82.51%
– Others	11,507	3,762	205.87%
Subtotal	469,117	600,691	(21.90%)
<b>Total</b>	<b>1,896,949</b>	1,561,415	21.49%



## MANAGEMENT DISCUSSION AND ANALYSIS

### (2) Operating Costs

In 2020, the Group's cost of sales increased by 25.21% to RMB1,595.48 million as compared with RMB1,274.2 million in 2019.

The following table sets out a breakdown of the cost of sales by business segment:

	2020 RMB'000	2019 RMB'000	Change in percentage
<b>Cost of sales by business segment</b>			
Heat supply	1,181,521	761,032	55.25%
Construction, maintenance and design services	413,959	513,214	(19.34%)
<b>Total</b>	<b>1,595,480</b>	<b>1,274,246</b>	<b>25.21%</b>

#### *Heat supply costs*

Cost of sales for heat supply business primarily consists of heat procurement costs in connection with heat procurement from local cogeneration plants, cost of purchase of coal for heat produced by coal-fired boilers, repair and labor cost (primarily includes wages, salaries and benefits for our employees involved in provision and distribution of heat) and utility cost.

The breakdown of cost of sales by component for the heat supply business is as follows:

	2020 RMB'000	2019 RMB'000	Change in percentage
<b>Cost of sales for heat supply</b>			
Heat procurement cost	640,550	421,103	52.11%
Coal	37,658	-	
Maintenance and repair	75,702	70,194	7.85%
Labor	146,053	84,820	72.19%
Depreciation and amortization	134,310	86,484	55.30%
Utility	71,419	53,590	33.27%
Input VAT transferred out	45,808	30,246	51.45%
Others	30,021	14,595	105.69%
<b>Total</b>	<b>1,181,521</b>	<b>761,032</b>	<b>55.25%</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the Group's heat procurement cost increased by 52.13% to RMB640.6 million as compared with RMB421.1 million in 2019, primarily due to (i) the unit price of heat (inclusive of tax) of No. 2 Cogeneration Plant and No. 4 Cogeneration Plant has risen to RMB36/GJ from RMB34/GJ with an increase of RMB2/GJ since the second half of 2020, which resulted in the increase in heat procurement cost; (ii) the acquisitions of 50% equity interest in Xixing Energy and 100% equity interest in Yatai Heating by the Group have increased the costs of heat procurement for Xixing Energy and Yatai Heating, which resulted in the increase of combined heat procurement cost.

In 2020, the Group's maintenance and repair costs increased by 7.83% to RMB75.7 million as compared with RMB70.2 million in 2019, primarily due to the increased repair costs incurred from the acquisition of Xixing Energy and Yatai Heating in 2020.

In 2020, the Group's labor cost increased by 72.19% to RMB146.05 million as compared with RMB84.8 million in 2019, primarily due to the acquisition of Xixing Energy and Yatai Heating since 2020 which resulted in an increase of staff.

In 2020, the Group's input VAT transferred out increased by 51.7% to RMB45.81 million as compared with RMB30.2 million in 2019, primarily due to the increase in input VAT transferred out as a result of the new acquisition of Yatai Heating.

### *Costs for construction, maintenance and design services*

Cost of sales for construction, maintenance and design services primarily consists of cost of materials, labor, machinery and other costs. In 2020, the cost of sales for construction, maintenance and design services decreased by 19.34% to RMB413.96 million as compared with RMB513.2 million in 2019. The decrease in cost for this business was generally in line with the decrease in revenue.

### (3) Gross Profit and Gross Profit Margin

In 2020, the Group's gross profit increased by 4.98% to RMB301.5 million as compared with RMB287.2 million in 2019. In 2020, the Group's gross profit margin decreased by 13.64% to 15.89% as compared with 18.4% in 2019. This was mainly due to the increase in the Company's heat supply fee and the year-on-year increase in maintenance expenses and labor costs as well as the decrease in construction projects this year, thus leading to a drop in gross profit margin.

Gross profit and gross profit margin of the Group are set out as follows:

	2020 RMB'000	2019 RMB'000
Operating revenue	1,896,949	1,561,415
Cost of sales	1,595,479	1,274,246
Gross profit	301,470	287,169
Gross profit margin	15.89%	18.4%

## MANAGEMENT DISCUSSION AND ANALYSIS

### (4) Selling Expenses

In 2020, the Group's selling expenses decreased by 100% to RMB0 million from RMB2.42 million in 2019, primarily due to the absence of advertising expenses related to marketing activities during the year.

### (5) Administrative Expenses

In 2020, the Group's administrative expenses increased by 19.36% to RMB121.12 million as compared with RMB101.48 million in 2019, primarily due to the increase in wages for management personnel during the year.

### (6) Finance Costs

In 2020, the Group's finance costs decreased by 191.11% to RMB-3.93 million as compared with RMB-1.35 million in 2019, primarily due to the increase in interest income for the Group in 2020.

### (7) Income Tax Expense

In 2020, the Group's income tax expense decreased by 15.35% to RMB39.22 million as compared with RMB46.33 million in 2019, mainly due to the decrease in taxable income as calculated in accordance with the Enterprise Income Tax Law and its relevant regulations.

### (8) Profit for the Year

In 2020, the Group's profit increased by 23.32% to RMB165.22 million as compared with RMB133.97 million in 2019. The increase was mainly due to the increase in profit of the newly established subsidiaries.

### (9) Liquidity and Capital Resources

The Group's cash and cash equivalents increased by 4.64% to RMB732.4 million as at 31 December 2020, as compared with the balance of RMB699.9 million as at 31 December 2019, which was primarily due to (i) the increase in operating revenue of the Company by 22%, the net cash inflow from operating activities of RMB416.8 million; (ii) the combined outflow from investing activities and financing activities of RMB133.9 million. The main sources of the Group's operating capital were from (i) unutilised bank facilities of RMB500 million as at 31 December 2020; (ii) cash and cash equivalents of approximately RMB732.4 million as at 31 December 2020. In December 2020, the Group acquired 100% equity interest in Yatai Heating, the business combination of Yatai Heating by the Company represents a business combination under common control, pursuant to which the relevant items in the comparative statements should be adjusted in accordance with the requirements of ASBE 20 – Business Combination, as such, cash and cash equivalents was RMB699.9 million before retrospective adjustment as at 31 December 2019 and RMB700.8 million after retrospective adjustment.

As at 31 December 2020, the Group do not have any borrowings as compared with RMB10.7 million as at 31 December 2019, representing a decrease of 100%.

### (10) Capital Expenditure

The Group's capital expenditure increased by 18.58% to RMB67.0 million in 2020 as compared with RMB56.5 million in 2019. The increase in capital expenditure was mainly attributable to the newly built pipeline network in 2020 and the increase in expenses for purchase of equipment as compared to 2019.

### (11) Capital Structure

As at 31 December 2020, the equity attributable to owners of the Group amounted to RMB878.15 million, which represents a decrease of RMB386.28 million as compared to 31 December 2019, mainly due to the combined effect of business combination of Yatai Heating under common control during the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### IV. RISK FACTORS AND RISK MANAGEMENT

#### (1) Industry Risk

The pricing of heat sources in the heat supply industry is usually subject to regulation and control by government departments, and the heat supply enterprises cannot have the right to regulate the purchase price of heat sources directly. In addition, the prices of services provided by the Group's engineering construction, maintenance and design business are also subject to control and regulation under government policies. Therefore, the Group's operations may be affected by adjustments to relevant laws and regulations as well as local policies in the PRC that are relevant to the industry, nevertheless, government departments will conduct in-depth studies on the industry before making any adjustments and take into full consideration the actual operating conditions of the companies within the industry.

The Group will continue to exercise effective cost control, strengthen internal supervision and control as well as enhance its ability to respond timely to market changes so as to achieve a people-oriented and demand-driven heat supply system. The Group will also strive to enhance its intelligent management capability to ensure the quality of heat supply services in order to cope with various industry risks.

#### (2) Policy Risk

Changes in national and local government policies have a profound impact on the industry. In terms of national policies, the development of environmentally friendly, energy-saving and sustainable green cities will become the trend of urban heat supply in the future. In recent years, the PRC government has attached great importance to the monitoring of environmental protection issues through laws and regulations, and has issued a series of environmental protection policies and imposed further restrictions and requirements in relation to pollution issues in relevant industries. Meanwhile, the National Development and Reform Commission and other bureaus have issued guidance documents to regulate the related fees charged by heat supply companies, with an aim to guide local heat supply companies to gradually eliminate unreasonable fees, which is beneficial to creating a more standardized and fair market environment.

In formulating its future development goals and directions, the Group will adhere to the principles and requirements set out in various national and local government economic policies, industrial policies, as well as laws and regulations.

#### (3) Climate Risk

The cost of heating for the heat supply segment is significantly affected by the weather conditions during the heating period. The Company needs to purchase more heat to maintain the desired in-room temperature for its customers when the outdoor temperature is low during the heating period, which will increase the overall cost of the heating business and vice versa.

The Group will fully leverage the smart heating network system to regulate its heat supply capacity and adopt an intelligent control system for rational distribution of heat supply in order to cope with the risk of climate change on the Company's cost structure.

#### (4) Exchange Risk

The Group's business activities are mainly conducted in the PRC and its borrowings are also settled in RMB. Changes in exchange rates do not have a material effect on the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### V. OTHER SIGNIFICANT EVENTS

#### (1) Significant Investments

The Group did not have any significant investments for the year ended 31 December 2020.

#### (2) Material Acquisitions and Disposals

On 8 June 2020, the Group entered into an equity transfer agreement with Changchun FAWSN Group Co., Ltd. (長春一汽富晟集團有限公司) (“**Changchun FAWSN**”) for the acquisition of 50% equity interest in Xixing Energy held by Changchun FAWSN. The equity transfer price paid by the Group amounted to RMB52.0 million. For details, please refer to the announcements of the Company dated 8 June 2020 and 11 June 2020. Upon completion of the transaction, the Group holds 100% equity interest in Xixing Energy and Xixing Energy has become a wholly-owned subsidiary of the Group.

On 29 October 2020, the Group entered into an equity acquisition agreement with Changchun Heating Group for the acquisition of 100% equity interest in Yatai Heating. The equity transfer price paid by the Group amounted to RMB318,376,300. The equity transaction was completed on 31 December 2020. For details, please refer to the announcements of the Company dated 29 October 2020 and 31 December 2020 and the circular of the Company dated 24 November 2020. Upon completion of the transaction, Yatai Heating has become a wholly-owned subsidiary of the Group.

#### (3) Capital Commitment and Contingent Liabilities

The Group did not have any material capital commitment or contingent liabilities for the year ended 31 December 2020.

#### (4) Charge on Assets

There was no material charge on the Group’s assets for the year ended 31 December 2020.

#### (5) Change of Accounting Standard

In view of the proposed A-share listing of the Company, on 22 December 2020 and 15 January 2021, the Company published an announcement and circular to propose the financial statements of the Company for the year ending 31 December 2020 and the financial periods thereafter will be prepared in accordance with the ASBEs, which was approved by the Shareholders at the extraordinary general meeting on 24 February 2021. The annual results for the year ended 31 December 2019 stated in this report may differ from the results included in the annual report for the year ended 31 December 2019 which was prepared in accordance with the International Financial Reporting Standards.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (6) Employees and Remuneration Policies

#### 1. *Employee Distribution*

For the year ended 31 December 2020, the Group had a total of 1,686 employees, which can be classified by the company employed: 952 employees were employed at the Company, 55 at Runfeng Installation Co., Ltd, 27 at Apparatus Co., Ltd, 67 at Pipelines Co., Ltd, 44 at Maintenance Service Co., Ltd, 33 at Heating Engineering Design Co., Ltd, 2 at Biomass Power Co., Ltd., 82 at Xixing Energy and 424 at Yatai Heating.

#### 2. *Remuneration Policy*

In 2020, the Group maintained its existing employees' remuneration package which comprises basic salary, position salary and monthly and yearly performance incentives in accordance with the Measures for Employees' Wage Management (《勞動工資管理辦法》). The determination of remuneration based on both position value and performance appraisals helps motivate employees' contribution and dedication to the Group.

#### 3. *Employee Training*

In 2020, the Group conducted knowledge-based trainings on the salary reform of state-owned enterprises and on job descriptions, which were taught by human resources management experts over a total of 275 participants in managerial positions. In order to improve the development of talent pipeline and discover the full potential of employees, professional ability enhancement trainings were organized and 242 outstanding employees of various kinds had participated in these trainings. In order to improve the employee's etiquette, special training courses on etiquette were conducted and participated by a total of 610 participants.

In order to further strengthen the practical operation skills of the employees and fully improve their overall quality and professionalism, skill trainings for all frontline technical staff were conducted during the year. A total of 670 employees in frontline positions such as maintenance, welders and electricians had completed such trainings to enhance their skills.

#### 4. *Employee Relationship and Social Insurance Management*

The relationship management of all employees of the Group strictly adheres to the requirements of national laws and regulations. The Group manages labor relations with its employees in compliance with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》). The Group strictly abides by the requirements of national and local competent authorities, completes registrations for social insurance contributions and provides its employees with statutory benefits such as the Five Insurances and One Fund. The staff teams enjoy an overall harmonious labor relationship.

### (7) Events after the Reporting Period

On 5 February 2021, the China Securities Regulatory Commission's Jilin branch has given its consent to the filing and registration of the pre-listing tutoring for the proposed A-share listing of the Group. For details, please refer to the announcement of the Group dated 8 February 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

### VI. PROSPECTS AND OUTLOOK

In 2020, China achieved outstanding results in the fight against the COVID-19 pandemic. With the rapid development of the Chinese economy, China's urbanisation rate is rising rapidly and the demand for urban heating is also growing.

Currently, the middle and lower stream of the Yangtze River basin in the PRC are experiencing wet and cold winters and there is a strong demand for heat supply. The indoor temperature in the southern regions, such as Shanghai, Chongqing, Hubei, Hunan and Jiangxi, during winter is much lower than that in the northern cities, which is powered by central heating. As people's aspirations for a better quality of life continues, demand for heat supply in the south also increases, providing the central heat service industry huge room for development. Therefore, the construction and development of centralised urban heating will become an effective mean for our nation in its pursuit of economic development, reducing environmental pollution and achieve sustainable development.

At the 75th session of the United Nations General Assembly, General Secretary Xi Jinping stated out that China will adopt stronger policies and measures to peak its carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060. This signifies that the Chinese government is taking practical action to enforce the Paris Agreement and is determined to implement green, low-carbon, energy-saving and emission-reducing production methods. With the introduction of the "14th Five-Year Plan", China's clean heating policy will continue to flourish, and heat supply methods that are environmentally friendly, energy efficient, appropriate and conducive to sustainable urban development will become the future of the heat supply industry. In addition, the central heat service area in the northeast region has been on the rise in recent years, and the growing market demand for heat supply facilities is the underlying force of the construction, maintenance and design services market.

As a state-controlled enterprise, the Group will actively respond to national policies, seize the opportunities arising from the new round of technological and industrial revolution, vigorously develop its central heat services business, continuously increase investment in technological innovation and technology research and development, actively explore green, low-carbon and environmentally friendly clean energy heating methods, strive to create a new heat supply model – the "smart technology + clean energy (智慧科技 + 清潔能源)" model – that is centered on energy conservation and environmental protection, and consolidate and enhance the Group's leading position in the field of smart heating in China.

In addition, the Group will continue to expand the scale of development of the heat supply industry chain around the heat supply business, optimize its strategic layout, revolutionize its business model, strive to improve its construction, maintenance and design business, expand its business scope to regions outside Jilin Province and further increase its market share.

## REPORT OF THE DIRECTORS

The Board of the Company presents the Group's annual report for the year 2020 (the “**Annual Report**”) and the audited combined financial statements of the Group prepared in accordance with the ASBEs for the year ended 31 December 2020 (the “**Financial Statements**”) to the Shareholders.

### CORPORATE INFORMATION

The Company was incorporated in the PRC on 23 October 2017 and is currently a joint stock company with limited liability. The H Shares of the Company were listed on the Main Board of the Stock Exchange on 24 October 2019.

Basic information of the Company is set out in “Corporate Profile” section on page 5 of this Annual Report and “Corporate Information” section on pages 247 to 248 of this Annual Report.

### PRINCIPAL BUSINESS

The Group is the largest heat service provider in Jilin Province. Heat supply is our core business, which has more than 20 years of operating history in Changchun. We also offer construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. Details of the principal subsidiaries of the Company are set out in Note VIII(I) to the Financial Statements.

### RESULTS

The audited results of operations of the Group for the year ended 31 December 2020 are set out in the combined income statement on pages 68 to 69 of this Annual Report. The financial position of the Group as at 31 December 2020 is set out in the combined statement of financial position on pages 66 to 67 of this Annual Report. The consolidated cash flows of the Group for the year ended 31 December 2020 are set out in the combined statement of cash flows on pages 70 and 71 of this Annual Report.

Discussion and analysis about the operating performance and significant elements affecting the results of operations and financial condition of the Group during the year are set out in “Management Discussion and Analysis” section on pages 7 to 22 of this Annual Report.

### BUSINESS REVIEW

During the reporting period, the Group kept heat supply as the principal business, while also offered construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. A review of the business of the Group during the year and a discussion on the Group's future business development are set out on pages 8 to 14 and page 22 of this Annual Report. A description of possible main risks and uncertainties that the Group may face is set out on page 19 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is set out on pages 15 to 18 of this Annual Report. Save as disclosed in the sub-section headed “Events after the Reporting Period” on page 38 of this Annual Report and Note XIV to the Financial Statements, to the knowledge of the Directors, there has not been any important event affecting the Group since the end of the financial year.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

A discussion on the Company's environmental policies and performance will be set out in the Environmental, Social and Governance Report which will be published in due course.



## REPORT OF THE DIRECTORS

### COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses. The Company has been setting up systemic and allocating staff resources to ensure continuous compliance with rules and regulations and to maintain cordial working relationships with regulators through effective communications. During the reporting period, the Company has complied, to the best of the knowledge of Directors, with all relevant rules and regulations that have a significant impact on the Company.

### SHARE CAPITAL

As of 31 December 2020, the total share capital of the Company was 466,700,000 shares, divided into 350,000,000 Domestic Shares and 116,700,000 H Shares, with par value of RMB1.00 each. During the year ended 31 December 2020, the Company did not issue any new shares in exchange for cash or other assets.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OR REDEEMABLE SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities or redeemable securities during the year ended 31 December 2020.

### CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

For the year ended 31 December 2020, none of convertible securities, options, warrants and other similar rights were issued and granted by the Company or any of its subsidiaries, nor any conversion rights or subscription rights were exercised pursuant to any convertible securities, options, warrants and other similar rights issued and granted by the Company or any of its subsidiaries at any time.

### DEBENTURES IN ISSUE

Neither the Company nor any of its subsidiaries issued any debentures during the year ended 31 December 2020.

### USE OF PROCEEDS FROM LISTING

The Shares of the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 24 October 2019. A total of 116.7 million H Shares with par value of RMB1.00 each were issued at the price of HK\$2.35 per Share through private placing and Hong Kong public offering, accounting for 25% of the total share capital after the issue, representing a financing scale of approximately HK\$274.2 million. The net proceeds from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, amounted to approximately HK\$220.5 million (equivalent to approximately RMB199.5 million) (the "IPO Proceeds").

The Company will utilize the IPO Proceeds for the purposes which are consistent with those set out in the Prospectus. Nevertheless, on 29 October 2020, the Company published an announcement proposing to revise the planned use of the unused net proceeds, which was approved by the Shareholders at the extraordinary general meeting on 30 December 2020. As disclosed in the 2019 Annual Report and the 2020 Interim Report, most of the net proceeds earmarked for upgrading the smart heat supply network was originally 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 heat supply network system will involve physically entering the communities where the relevant end-users are located. During the COVID-19 pandemic, 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 was also affected.

## REPORT OF THE DIRECTORS

The primary distribution pipelines and heat supply facilities of the Group are sourced from all over the PRC and from overseas. Due to the outbreak of COVID-19, the supply of 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 heat supply network and upgrading and replacing of the Group's existing distribution pipelines and heat supply facilities to acquisitions of suitable enterprises in order to expand the Group's business, which was used in full for the partial settlement of consideration for the acquisition of the 100% equity interests in Changchun Yatai Heating Company Limited. Details of which were set out in the Company's announcement dated 29 October 2020 and circular dated 25 November 2020.

Details of the utilization of the IPO Proceeds are set out below:

Use of net proceeds (RMB million) (% of net proceeds)	Original planned use of net proceeds	Amount utilized prior to revision	Revision of allocation	Unused new proceeds immediately after revision of allocation	Amount utilized after revision of allocation	Unused net proceeds as at 31 December 2020	Expected timeline for utilizing the unused net proceeds
1. Upgrade the smart heat supply network	81.8 (41.0%)	–	-50.0 (-25.1%)	31.8 (15.9%)	-28.0 (14.0%)	3.8 (1.9%)	No later than end of 2021
2. Replace pipelines and facilities	81.8 (41.0%)	–	-50.0 (-25.1%)	31.8 (15.9%)	-16.9 (8.5%)	14.9 (7.5%)	No later than end of 2021
3. Expand service area	25.9 (13.0%)	-21.6 (10.8%)	–	4.3 (2.2%)	-4.3 (2.2%)	–	–
4. Acquisitions	10.0 (5.0%)	-10.0 (5.0%)	+100.0 (+50.2%)	100.0 (50.2%)	-100.0 (50.2%)	–	–
	199.5 (100.0%)	-31.6 (15.8%)	–	167.9 (84.2%)	-149.2 (74.8%)	18.7 (9.4%)	

- approximately RMB81.8 million (equivalent to approximately HK\$90.4 million) allocated for originally planned use, representing approximately 41.0% of the net proceeds from the global offering, was revised to RMB31.8 million, representing approximately 15.9% of the net proceeds from the global offering. From the date of receiving the IPO Proceeds to 31 December 2020, RMB28.0 million has been used for further increasing the level of automation in the Group's heat supply business by enhancing the Group's smart heat supply network system to achieve a more stable, efficient and technologically advanced heat supply. Most of the proceeds that are allocated to this category will be used for upgrading the system, purchasing relevant equipment and sensors and installation of the equipment in the heat exchange stations and end-users' properties. The balance of RMB3.8 million is expected to be used no later than the end of 2021 for upgrading the smart heat supply network.

## REPORT OF THE DIRECTORS

- 2) approximately RMB81.8 million (equivalent to approximately HK\$90.4 million) allocated for originally planned use, representing approximately 41.0% of the net proceeds from the global offering, was revised to RMB31.8 million, representing approximately 15.9% of the net proceeds from the global offering. From the date of receiving the IPO Proceeds to 31 December 2020, RMB16.9 million has been used for upgrading and replacement of existing primary distribution pipelines and heat supply facilities to enhance operational efficiency of the Group's heat distribution network. The balance of RMB14.9 million is expected to be used no later than the end of 2021 for replacement of primary distribution pipelines and heat supply facilities.
- 3) approximately RMB25.9 million (equivalent to approximately HK\$28.7 million) allocated for originally planned use, representing approximately 13.0% of the net proceeds from the global offering, was not revised. From the date of receiving the IPO Proceeds to 31 December 2020, the entire amount has been used in the Group's heat service area expansion to facilitate the growth of its heat supply business, including necessary construction of primary distribution pipelines and heat supply facilities required thereunder.
- 4) approximately RMB10.0 million (equivalent to approximately HK\$11.0 million) allocated for originally planned use, representing approximately 5.0% of the net proceeds from the global offering, was revised to RMB110.0 million, representing approximately 55.2% of the net proceeds from the global offering. From the date of receiving the IPO Proceeds to 31 December 2020, the entire amount has been used, which mainly includes RMB100.0 million for payment of partial consideration in relation to the acquisition of 100% equity interest in Changchun Yatai Heating Co., Ltd. in 2020.

The unutilized IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

### EQUITY-LINKED AGREEMENT

For the year ended 31 December 2020, the Company did not enter into any equity-linked agreement and there was no equity-linked agreement.

### PERMITTED INDEMNITY

The Company has maintained appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance. No permitted indemnity was provided by the Company as at the date of this annual report and no permitted indemnity was made as at the date of this annual report.

### PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER

The Controlling Shareholder of the Company did not pledge any of its shares in the Company to secure its debts or other support for the year ended 31 December 2020.

### CHARGES ON THE GROUP'S ASSETS

For the year ended 31 December 2020, there were no charges on the Group's assets.

### LOAN ARRANGEMENTS GRANTED BY THE COMPANY TO ENTITIES

For the year ended 31 December 2020, the Group did not grant any loan to any entity which is subject to disclosure requirements under Rule 13.13 of the Listing Rules.

## REPORT OF THE DIRECTORS

### LOAN AGREEMENTS OR FINANCIAL ASSISTANCE OF THE COMPANY

The Company has no affiliated companies nor provided any financial assistance or guarantee to its affiliated companies for the year ended 31 December 2020, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company did not enter into any loan agreement with covenants relating to specific responsibility of its Controlling Shareholders nor breach the terms of any loan agreements for the year ended 31 December 2020.

### SHARE OPTION SCHEME

For the year ended 31 December 2020, the Company had not implemented any share option scheme.

### PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company has no provision on pre-emptive rights requiring it to propose new issues to its existing Shareholders in proportion to their shareholdings.

### DIVIDEND POLICY

In order to provide return to its Shareholders, and having considered the financial and business conditions of the Group after the Listing, the Board has approved and adopted a dividend policy (the “**Dividend Policy**”). According to the Dividend Policy, in the absence of any adverse circumstances which might reduce the profits that are distributable whether by losses or otherwise, the Company will distribute no less than 30% of its annual distributable net profit to Shareholders as annual dividends in any financial year in compliance with relevant laws and regulations of the PRC and Hong Kong and after relevant considerations are met.

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board. Any declaration of dividends shall be conducted in accordance with all applicable PRC laws and regulations, the Articles of Association, all applicable laws and regulations of the place where the shares of the Company are listed, and other applicable laws and regulations.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on, among other things, the Company’s results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under ASBE or IFRS (whichever is lower), the Articles of Association, the PRC Company Law and any other applicable PRC law and regulations and other factors that the Directors may consider relevant without prejudice to the normal operation of the Group.

The Board shall continually review the Dividend Policy and reserve the absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. The Company does not guarantee the payment of any specific amount of dividends for any given period of time.

## REPORT OF THE DIRECTORS

### FINAL DIVIDEND

The Board resolved to propose to the Shareholders of the Company at the 2020 AGM to be held on 28 May 2021 for their consideration and approval of the payment of a final dividend of RMB0.103 per share (tax inclusive) for the year ended 31 December 2020 (the “**2020 Final Dividend**”) (2019: RMB0.17 per share), payable to the Shareholders of the Company whose names appear on the register of members of the Company on 9 June 2021, in an aggregate amount of approximately RMB48.07 million (2019: approximately RMB79.34 million). The 2020 Final Dividend will be denominated and declared in RMB. Dividends on Domestic Shares will be paid in RMB and dividends on H Shares will be paid in Hong Kong dollars. Subject to the passing of the relevant resolution at the AGM, the 2020 Final Dividend are expected to be paid on or around 9 July 2021.

Pursuant to the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》) and the Implementation Rules of the Enterprise Income Tax Law of People’s Republic of China (《中華人民共和國企業所得稅法實施條例》) implemented in 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% when distributing the 2020 Final Dividend to its non-resident enterprise Shareholders of overseas H Shares (including HKSCC Nominees Limited, other corporate nominees or trustees, or other entities and organizations) whose names appear on the H Shares register of members of the Company on 9 June 2021.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No.348) (國家稅務總局國稅函[2011]348號) and relevant laws and regulations, if the individual H Share Shareholders are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Shareholders. If the individual H Share Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the individual H Share Shareholders shall make self-assessment regarding whether they meet the conditions for enjoying the tax treaty benefits pursuant to the Announcement of the State Administration of Taxation ([2019] No.35) (國家稅務總局公告(2019年第35號)). If the Shareholders are entitled to such treaty benefits, they shall duly fill in the Information Reporting Form for Non-resident Taxpayers Claiming Treaty Benefits (《非居民納稅人享受協定待遇信息報告表》) and submit to the Company. After receiving and ensuring the completeness of information of the form, the Company will duly submit the form as a schedule for withholding declaration to the competent tax authority pursuant to the provisions of domestic tax laws and tax treaty. The Company will withhold the tax pursuant to the provisions of domestic tax laws for Shareholders whose Information Reporting Form for Non-resident Taxpayers Claiming Treaty Benefits has not been submitted or has missing information. If the individual H Share Shareholders are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual H Share Shareholders are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or those countries which have not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these shareholders.

The Company will determine the resident status of the individual H Share Shareholders based on the registered address as recorded in the register of members of the Company on 9 June 2021 (the “**Registered Address**”). If the resident status of an individual H Share Shareholder is not the same as the Registered Address or if the individual H Share Shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H Share shareholder shall notify and provide relevant supporting documents to the Company on or before Wednesday, 2 June 2021. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H Share shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaty notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

## REPORT OF THE DIRECTORS

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H Share Shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H Share Shareholders or any disputes over the withholding mechanism or arrangements.

Shareholders are recommended to consult their taxation advisors for advice on the PRC, Hong Kong and other tax effects with respect to the holding and disposing of H Shares.

According to the Articles of Association, the Hong Kong dollars required for the payment of cash dividends and other amount by the Company to the individual H Share Shareholders shall be arranged in accordance with the provisions of the PRC in relation to foreign exchange administration.

The Company was not aware of any Shareholders who had waived or agreed to waive any dividend arrangement for the year ended 31 December 2020.

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' rights to attend and vote at the AGM and their entitlement to the proposed 2020 Final Dividend, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021 (both days inclusive) and from Thursday, 3 June 2021 to Wednesday, 9 June 2021 (both days inclusive) respectively, during which period no transfer of H Shares will be registered.

In order to be eligible to attend and vote at the forthcoming AGM, holders of H Shares shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 May 2021.

In order to be entitled to the proposed 2020 Final Dividend (subject to the approval by the Shareholders at the forthcoming AGM), holders of H Shares shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 2 June 2021.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out under Remark 14 in Note VI to the Financial Statements.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out under Remark 38 in Note VI to the Financial Statements and in the combined statement of changes in equity on pages 72 to 73 of this Annual Report, respectively.

### DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution amounted to approximately RMB196.8 million (as at 31 December 2019: RMB175.9 million).

## REPORT OF THE DIRECTORS

### DONATIONS

For the year ended 31 December 2020, the Group has donated a total of nil (2019: nil).

### BANK BORROWINGS AND OTHER BORROWINGS

As at 31 December 2020, the bank and other borrowings of the Group amounted to nil (as at 31 December 2019: RMB10.7 million).

### DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Part of the information of the Directors, Supervisors and senior management of the Company for the year ended 31 December 2020 and as at the date of this report is illustrated below.

<u>Name</u>	<u>Position in the Company</u>	<u>Date of appointment/ re-election</u>
Mr. LIU Changchun	Non-executive Director and Chairman of the Board	30 May 2018
Mr. YANG Zhongshi	Executive Director and General Manager	30 May 2018
Mr. SHI Mingjun	Executive Director	7 August 2018
	Deputy General Manager	23 July 2018
Mr. XU Chungang	Executive Director	30 May 2018
	Deputy General Manager	23 July 2018
	Financial Controller	26 March 2019
Mr. LI Yeji	Executive Director	30 May 2018
Mr. WANG Yuguo	Independent non-executive Director	19 August 2019
Mr. FU Yachen	Independent non-executive Director	19 August 2019
Mr. POON Pok Man	Independent non-executive Director	19 August 2019
Mr. WANG Fenghua	Chairman of the Supervisory Committee	30 May 2018
Ms. ZHANG Wei	Supervisor	30 December 2020
Ms. WANG Xuejing	Supervisor	30 May 2018 (ceased to be a Supervisor on 30 December 2020)
Ms. LI Xiaoling	Employee representative Supervisor	30 May 2018
	Deputy Head of Securities Business Department	8 November 2019
Mr. Zhang Liming	Deputy General Manager	30 May 2018
Mr. WAN Tao	Board Secretary and General Office Manager	30 May 2018
	Joint Company Secretary	20 May 2019

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

### BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out on pages 53 to 60 of this Annual Report.

## REPORT OF THE DIRECTORS

### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Company has entered into a service contract with each of the Directors, major terms of which include that (1) the tenure is for three years commencing from the date of appointment to the expiration of each appointment (for all Directors); and (2) the tenure may be terminated in accordance with respective terms of the contract. The service agreements may be renewed pursuant to the Articles of Association and applicable rules.

The Company has entered into a contract with each of the Supervisors in respect of, among others, compliance with relevant laws and regulations, the Articles of Association and provisions of arbitration.

Save as disclosed above, none of the Directors or Supervisors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### EMOLUMENTS OF DIRECTORS AND SUPERVISORS

The emoluments of our Directors and Supervisors are paid in the form of fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contributions. The details of the remuneration of the Directors and Supervisors are set out in Note XI(V) – 6. Remuneration of Key Management to the Financial Statements.

The emoluments paid to our Directors and Supervisors are determined by such factors as the size of business, industry, work experiences and duties, meanwhile the performance by them in various committees are considered as well. The standards and amounts for the emoluments are proposed by remuneration committee, reviewed by the Board and shall be valid after the final approval by shareholders' general meeting.

For the year ended 31 December 2020, the emoluments of the senior managements of the Company (other than executive directors) are set out as below:

Remuneration (RMB)	Number of individual
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Nil to 1,000,000	7
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The details of the emoluments of our Directors and the highest paid individual of the Company are set out in Note XI(V) – 6. Remuneration of Key Management to the Financial Statements.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS

After the end of 2020 or at any time during the year, there were no transaction, arrangement or contracts of significance subsisting in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which any Director or Supervisor or any entity connected with the Director or Supervisor had a material interest directly or indirectly.

### ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the reporting period was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year 2020, save as disclosed below, none of the Directors or their associates had any competing interests in any business that constitutes or may constitute direct or indirect competition with the Company's businesses:

Name of Directors	Positions in the Company	Other interests
Mr. LIU Changchun	Non-executive Director and Chairman of the Board	Director and chairman of the board of Changchun Heating Group (Note 1), chairman of the board of Yatai Heating (Notes 3 and 4)
Mr. YANG Zhongshi	Executive Director and General Manager	Director of Yatai Heating (Notes 3 and 4)
Mr. SHI Mingjun	Executive Director and Deputy General Manager	Non-executive director of Datang Changre Jilin Heating Company Limited (大唐長熱吉林熱力有限公司) ("Datang JV") (Note 2), director of Yatai Heating (Notes 3 and 4)

Notes:

- (1) Mr. LIU Changchun has been a director of Changchun Heating Group since 17 March 2016 and has been the chairman of the board of Changchun Heating Group since 5 September 2016;
- (2) Mr. SHI Mingjun has been a non-executive director of Datang JV since 9 June 2017;
- (3) Mr. LIU Changchun has been the chairman of the board of Yatai Heating since 31 December 2019. Mr. YANG Zhongshi and Mr. SHI Mingjun have been directors of Yatai Heating since 31 December 2019; and
- (4) On 29 October 2020, Changchun Heating Group (the "Vendor") entered into an acquisition agreement (for which Mr. LIU Changchun, Mr. YANG Zhongshi and Mr. SHI Mingjun were required to abstain from voting at the relevant Board meetings) with the Group, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase 100% equity interest in Yatai Heating at a consideration of RMB318,376,300 in accordance with the terms and conditions of the acquisition agreement (the "Acquisition"). On 30 December 2020, the Company has obtained approval for the Acquisition from the independent Shareholders at the extraordinary general meeting; and the Acquisition was completed on 31 December 2020 and Yatai Heating has become a wholly-owned subsidiary of the Company.

Although Mr. LIU Changchun ("Mr. Liu") has been the director and chairman of the board of Changchun Heating Group which is a shareholder of the Company, during the reporting period, Mr. Liu, as a non-executive Director of the Company, is not involved in the day-to-day management of the Company. Mr. SHI Mingjun ("Mr. Shi") is the non-executive director of Datang JV, but he has never been involved in the day-to-day operation of Datang JV. We are of the view that the arrangement did not affect our operation and independence. We have taken adequate corporate governance measures, including specifying provisions to avoid conflict of interests in the Articles of Association, to ensure our management independence. Mr. Liu, Mr. Yang and Mr. Shi are fully aware of their fiduciary responsibilities, which require, among other things, that they act in the best interests of our Group and our Shareholders as a whole. In addition, as the Company, Changchun Heating Group and Datang JV are managed by different management teams, there are sufficient non-overlapping Directors who have relevant experience to ensure the proper functioning of the Board.

## REPORT OF THE DIRECTORS

### INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, no Director, Supervisor or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 those taken or deemed as their interests or short positions in accordance with such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN THE SHARES

As at 31 December 2020, to the knowledge of the Directors, the persons (other than a Director, Supervisor or chief executive of the Company) who have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholders	Types of shares	Capacity	Number of shares/ underlying shares held (share) (Note 5)	Percentage of relevant class of share capital (%)	Percentage of total share capital (%)
Changchun Heating Group	Domestic shares	Beneficial owner	325,500,000(L)	93.00(L)	69.75
Changchun State-owned Capital Investment Operation (Group) Co., Ltd.	Domestic shares	Beneficial owner	24,500,000(L)	7.00(L)	5.25
Cititrust Private Trust (Cayman) Limited (Note 1)	H Shares	Interest of a controlled corporation	32,250,000(L)	27.63(L)	6.91
Fantasy Races Limited (Note 1)	H Shares	Interest of a controlled corporation	32,250,000(L)	27.63(L)	6.91
Harvest Well Holdings Limited (Note 1)	H Shares	Interest of a controlled corporation	32,250,000(L)	27.63(L)	6.91
Joywise Holdings Limited (Note 1)	H Shares	Interest of a controlled corporation	32,250,000(L)	27.63(L)	6.91
Ming Fai International Limited (Note 1)	H Shares	Interest of a controlled corporation	32,250,000(L)	27.63(L)	6.91
Sunshine 100 China Holdings Ltd. (Note 1)	H Shares	Interest of a controlled corporation	32,250,000(L)	27.63(L)	6.91
China Foreign Economic and Trade Trust Co., Ltd. (Note 2)	H Shares	Trustee	18,820,000(L)	16.13(L)	4.03
SDIC Taikang Trust Co., Ltd. (Note 3)	H Shares	Trustee	17,510,000(L)	15.00(L)	3.75
HE Libo (Note 4)	H Shares	Beneficial owner	6,000,000(L)	5.14(L)	1.29
WANG Fujiang (Note 4)	H Shares	Beneficial owner	6,000,000(L)	5.14(L)	1.29

#### Notes:

- Sunshine 100 China Holdings Ltd. Limited is interested in 32,500,000 H Shares. Sunshine 100 China Holdings Ltd is owned as to 66.11% by Joywise Holdings Limited; Joywise Holdings Limited are 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 and Fantasy Races Limited are deemed to be interested in the H Shares held by Sunshine 100 China Holdings Ltd.
- 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.
- SDIC Taikang Trust Co., Ltd. is the trustee of SDIC Taikang Trust – Ruijin No. 7 & 8 QDII Single Fund Trust.

## REPORT OF THE DIRECTORS

4. He Libo and Wang Fujiang are spouses, each of whom holds 3,000,000 H 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.

### MANAGEMENT CONTRACT

No contract concerning the management and administration of all or any substantial part of our business was entered into by the Company or existed in 2020.

### CONTRACT OF SIGNIFICANCE

Save as disclosed in this Annual Report, at no time during the reporting period had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

### CONNECTED TRANSACTIONS

#### Acquisition of 100% equity interests in Yatai Heating

On 29 October 2020, Changchun Heating Group (the "**Vendor**") entered into an acquisition agreement with the Company, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase 100% equity interest in Yatai Heating at a consideration of RMB318,376,300 (equivalent to approximately HK\$366.89 million) in accordance with the terms and conditions of the acquisition agreement (the "**Acquisition**").

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. On 30 December 2020, the Company has obtained approval for the Acquisition from the independent Shareholders at the extraordinary general meeting; and the Acquisition was completed on 31 December 2020 and Yatai Heating has become a wholly-owned subsidiary of the Company.

Save as disclosed above, the Group did not conduct any non-exempt one-off connected transactions during the year ended 31 December 2020.

## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2020, the Company (for itself and on behalf of its subsidiaries) has conducted the following non-exempt continuing connected transactions with its connected persons.

#### Construction Framework Agreement

Changchun Heating Group owns approximately 69.75% of the Company's share capital. Therefore, Changchun Heating Group is a substantial shareholder of the Company. Changchun Heating Group is a connected person of the Company under Rule 14A.07 of the Listing Rules.

The Company (for itself and on behalf of its subsidiaries) and Changchun Heating Group entered into the Construction Framework Agreement on 17 September 2019, pursuant to which our Company agrees to provide construction, maintenance and design services to our Controlling Shareholder Group for a term until 31 December 2021. The services will include engineering construction, engineering maintenance, design services and electrical and instrument maintenance and repair. Separate contracts will be entered into between relevant entities of both parties to set out the specific terms and conditions pursuant to the principles stipulated in the Construction Framework Agreement.

For the year ended 31 December 2020, the annual cap for total fees received from the Controlling Shareholder Group in respect of the transactions contemplated under the Construction Framework Agreement is RMB30.8 million. The actual transaction amount for the period from 1 January 2020 to 31 December 2020 is approximately RMB28.0 million.

#### Pipes Supply Agreement

A wholly-owned subsidiary of the Controlling Shareholder of the Company held 35% equity interest in Jilin Province New Model Pipes Co., Ltd.. The Company (for itself and on behalf of its subsidiaries) and Jilin Province New Model Pipes Co., Ltd entered into the Pipes Supply Agreement on 17 September 2019, pursuant to which Jilin Province New Model Pipes Co., Ltd agrees to supply pipes for heating supply to the Company for a term until 31 December 2021. Separate contracts will be entered into between relevant entities of both parties to set out the specific terms and conditions pursuant to the principles stipulated in the Pipes Supply Agreement.

For the year ended 31 December 2020, the annual cap for total fees paid by the Group to Jilin Province New Model Pipes Co., Ltd. in respect of the transactions contemplated under the Pipes Supply Agreement is RMB20.0 million. The actual transaction amount for the period from 1 January 2020 to 31 December 2020 is approximately RMB20.0 million.

#### Procurement of Heat from Datang JV

Changchun Heating Group, the controlling shareholder of the Company, holds 35% equity interests in Datang JV. Prior to the completion of the acquisition of Xixing Energy in 2020, Xixing Energy was accounted for as a joint venture in the combined financial statements of the Company and the transactions between Datang JV and Xixing Energy did not constitute a connected transaction of the Company.

Upon completion of the acquisition of 50% equity interests in Xixing Energy on 11 June 2020, Xixing Energy became a wholly-owned subsidiary of the Company and, therefore, the transactions between Datang JV and Xixing Energy constituted a connected transaction of the Company.

## REPORT OF THE DIRECTORS

Pursuant to the heat supply agreement entered into between Xixing Energy and Datang JV on 16 October 2020, Xixing Energy shall procure heat from Datang JV in the 2020-2021 heating season according to its demand. The heat procurement price for non-peak period is RMB40.5/GJ or, if Datang Changchun No. 3 Co-generation Power Plant (大唐長春第三熱電廠) adjusted its heat price, would be the revised heat price plus RMB6.5/GJ. The heat procurement price for peak period is the heat procurement price procured from the heat sources of Datang JV plus RMB6.5/GJ. During the period from 11 June 2020 to 31 December 2020, the total amount paid by Xixing Energy to Datang JV for heat procurement (the “**Datang JV Heat Procurement CCT**”) amounted to RMB10.0 million.

As a result of an inadvertent and unintentional oversight by Xixing Energy’s operations division, the Datang JV Heat Procurement CCT was not reported to the Company in accordance with the Connected Transactions Management Regulations (《關連交易管理規定》) of the Company. Hence, the Company and the Board were not aware of the Datang JV Heat Procurement CCT at the material time. During the course of the Company’s review of all of its potential continuing connected transactions for the three years ending 31 December 2023, the Company enquired its subsidiaries (including Xixing Energy) whether they would conduct any transactions with the Company’s connected persons in the three years ending 31 December 2023. Xixing Energy then informed the Company that as part of their usual course of business, Xixing Energy expected to continue to procure heat from Datang JV in future heat supply periods. It was only at that material time when the Datang JV Heat Procurement CCT was first discovered by the Company in the first quarter of 2021.

### Review by and confirmation of independent non-executive Directors of the Company

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions, and confirmed that such transactions were:

- (1) carried out in the ordinary course of business of the Group;
- (2) made on normal or better commercial terms; and
- (3) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Company’s Shareholders as a whole.

### Auditor’s Confirmation

The auditors of the Company have performed the relevant assurance procedures regarding the above continuing connected transactions, and confirmed by way of a letter to the Board of Directors that for the year ended 31 December 2020 that these transactions:

- (1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company’s Board of Directors;
- (2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

## REPORT OF THE DIRECTORS

- (3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (4) with respect to the aggregate amount of each of the continuing connected transactions set out above (other than the procurement of heat from Datang JV by Xixing Energy), nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value as set by the Company.

The related party transactions disclosed in paragraphs 2 to 3 in Note XI(V) constitute continuing connected transactions of the Company which are subject to the annual reporting requirement under Chapter 14A of the Listing Rules, details of which are set out in the sub-section headed "Continuing Connected Transactions" above. The related party transaction disclosed in paragraphs 4 to 5 in Note XI(V) constitute fully-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Save in relation to the procurement of heat from Datang JV by Xixing Energy as disclosed above, the Directors confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

### COMPLIANCE WITH THE NON-COMPETITION DEED

The Company entered into a non-competition deed with the Company's Controlling Shareholders, Changchun Heating Group, on 17 September 2019 in favor of the Company, pursuant to which the Controlling Shareholder agrees to (i) save and except for the Three Supplies and Property Management Projects (being heat supply, water supply, electricity supply and property management services), Excluded Heat Supply in the PRC and Ancillary Businesses, it will not engage in any business that competes or is likely to compete, directly or indirectly, with our business within or outside PRC, and will procure its subsidiaries (excluding our Group) not to engage in any business that competes or is likely to compete, directly or indirectly, with our business, and (ii) it will inform us of any new business opportunities which compete or are likely to compete and use its best efforts to procure such opportunities be made available to us.

During the year, the Company's independent non-executive Directors have reviewed the implementation of the non-competition deed and confirmed that the Controlling Shareholders have fully observed the non-competition deed without any case of violation.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the total purchases from the five largest suppliers of the Company accounted for 50.43% of the total purchases during the year. The purchase from the largest supplier accounted for 15.51% of the total volume of purchased during the year.

For the year ended 31 December 2020, the total sales to the five largest customers of the Company accounted for 51.50% of the total sales during the year. The sales to the largest customer accounted for 19.85% of the total sales during the year.

During the reporting period, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had interests in the five largest suppliers or customers of the Company during the year.

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complies with code provisions as set out in the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 of the Listing Rules throughout the reporting period. Please refer to the section "Corporate Governance Report" in this Annual Report for details.

## REPORT OF THE DIRECTORS

### RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that our employees, customers and business associates are keys to our sustainability journey. The Company strives to achieve corporate sustainability through engaging its employees, providing quality services for its customers, collaborating with business partners and supporting its community.

The Company places significant emphasis on human resources. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company administers its employees' health and safety management system and ensures the adoption of the principles across the Group. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organizations.

The Company values the feedback from customers, so it investigates and understands their opinions by daily communication and other means. The Company has also formulated the measures for the administration of user service. The Company treats providing customer service as an opportunity to improve our relationship with the customers, addressing customers' concerns in a timely manner and in accordance with international standards.

The Company believes that its suppliers are equally important in producing quality products. Therefore, the Company proactively collaborates with its business partners to deliver quality sustainable services.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a public float of no less than 25% of its issued shares as at the date of this annual report, which was in line with the requirement under the Listing Rules.

### SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2020, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

### EVENTS AFTER THE REPORTING PERIOD

On 5 February 2021, the China Securities Regulatory Commission's Jilin branch has given its consent to the filing and registration of the pre-listing tutoring for the proposed A-share listing of the Company. For details, please refer to the announcement of the Group dated 8 February 2021.

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's 2020 annual results and the Financial Statements for the year ended 31 December 2020 prepared in accordance with the ASBEs.

### AUDITOR

The Company received a letter dated 2 December 2020 from Ernst & Young ("**Ernst & Young**") which stated, among others, that as Ernst & Young understands that its proposed audit fee for the year ending 31 December 2020 was not ultimately agreed by the Company, after considering the fee and risk factors, it shall retire as the auditor of the Company immediately. In the above letter, Ernst & Young confirmed that in its opinion, there are no circumstances in connection with its retirement that needs to be brought to the attention of the shareholders of the Company. The Board and the audit committee of the Board confirmed that there is no disagreement between the Company and Ernst & Young regarding its retirement. The Board further confirmed that it is not aware of any matters regarding the retirement of Ernst & Young that needs to be brought to the attention of the shareholders of the Company.

On 22 December 2020, the Board proposed to appoint Da Hua Certified Public Accountants (Special General Partnership) ("**Da Hua**") as the auditor of the Company for the year ended 31 December 2020 to fill the vacancy arising from Ernst & Young's retirement, which was approved by the Shareholders at the extraordinary general meeting held on 24 February 2021.

The Company's auditor, Da Hua, has audited the Financial Statements of the Company for the year ended 31 December 2020. In view that Da Hua is familiar with the environment where the Company operates, is concerned with the Company's internal control systems and implementation thereof, has been fully conscious of different risks and is highly independent, the Company will propose a resolution for consideration and approval by the Shareholders at the forthcoming annual general meeting to re-appoint Da Hua as the auditor of the Company for the year 2021.

### FINANCIAL SUMMARY

Summary of results of operation and the assets and liabilities of the Group for the last five financial years are set out in "Financial Summary" section on page 6 of this annual report. The financial summary does not constitute part of the audited combined financial statements of the Group.

By order of the Board  
**Jilin Province Chuncheng Heating Company Limited**  
**LIU Changchun**  
*Chairman of the Board*

Jilin, the PRC  
26 March 2021



## REPORT OF THE SUPERVISORY COMMITTEE

In 2020, all members in the Supervisory Committee, in strictly compliance with the Company Law of the PRC and other laws, regulations, rules and directives and the relevant provisions of the Articles of Association, the Rules of Procedure of the Supervisory Committee and the Listing Rules, had been performing its supervisory duties on the Directors and senior management's fulfilling of their respective responsibilities in the Company, aiming at guarding the long-term benefits of the Company and the interests of all of our Shareholders. We hereby report the main works we have done during the reporting period as follows:

### I. Meetings of the Committee of Supervisors

The Supervisory Committee held two meetings in 2020 to consider, among others, the connected transactions in 2019, the audited combined financial statements and the annual results announcement and annual report for 2019, the proposals on the profit distribution and final dividend payment of the Company and the resolution on the change of Supervisors.

### II. Present At/Attend Major Meetings

In 2020, the Supervisory Committee was present at two general meetings and attended seven Board Meetings. By attending those meetings, the Supervisors not only understood the operation and management of the Company, but also actively participated in the review and discussion of proposals to provide opinions and suggestions, and effectively supervised procedures for convening these meetings, and the discussion of subjects in the meetings.

### III. Routine Examination and Research

In 2020, the Supervisory Committee followed closely on the operation of the Company to ensure internal operation of the Company is always in compliance with the related systems and regulations of the Listing Rules.

### IV. Independent Opinion and Special Explanation

The Supervisory Committee has mainly conducted the following works:

1. By supervising duty performance of Directors and senior management of the Company and the legality of the operation of the Company, the Supervisory Committee was of the view that the Company was able to make decisions according to the law and in strict compliance with requirements such as the Company Law of the PRC, the Articles of Association and the major decision making processes for its operation is legal and valid. The Company further completed and optimized internal management system and internal control mechanisms including the Board diversity policy (the "**Board Diversity Policy**"), Shareholders' Communication Policy, Administrative Measures on Information Disclosure and Administrative Measures on Connected Transactions. The Company disclosed important information on the Company in a timely manner according to securities regulatory and management requirements so that the information was disclosed in a regulated manner, and the securities trading system for the informed parties of insider information was conducted well; the Company also adopted Appendix 10 of the Listing Rules headed "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as its model code for securities transactions by Directors, Supervisors and personnel in possession of insider information of the Company. Directors and senior management of the Company have all performed their duties in accordance with related laws and regulations, the Articles of Association and resolutions of the general meetings and meetings of directors and devoted to their duties while forging ahead. Besides, no actions which violated laws and regulations, the Articles of Association, or harmed the interests of the Company or Shareholders have ever been found during the execution of their duties for the Company.

## REPORT OF THE SUPERVISORY COMMITTEE

2. By communicating with the accounting firm in charge of providing audit and review service to the Company, the Supervisory Committee reviewed Financial Statements of the Company, considered periodical reports of the Company and the audit report submitted by accounting firm, and periodically attended to the report by internal audit department of the Company on the conduct of internal audit work, and carried out effective supervision and inspection on the financial management and operation of the Company. The Supervisory Committee was of the view that during 2020, the Company had sound financial systems, regulated management and reasonable expenses. The Company's 2020 Financial Statements was audited by Da Hua who have issued the standard audit report with an unqualified opinion that the 2020 Financial Statements prepared by the Company fairly reflected the financial condition and operating results of the Company.
3. The Supervisory Committee supervised the utilization of the proceeds by the Company. The Supervisory Committee was of the view that the Company was able to manage and utilize the proceeds according to national laws and regulations and the commitments made by it in the Prospectus, and the Supervisory Committee will continue to supervise and inspect the utilization of such proceeds.
4. The Supervisory Committee reviewed the related data of connected transactions carried out by the Company's Controlling Shareholders. It was of the view that those transactions were conducted in a fair and just way, at reasonable price, and without prejudice to the interests of the Company and other shareholders. The Directors, General Manager and other senior management members of the Company have exercised the rights granted by the Shareholders and discharged their obligations in good faith and with due diligence. So far, the Supervisory Committee is not aware of any abuse of authority which impairs the interests of the shareholders and the legitimate rights of the employees of the Company.
5. The Supervisory Committee thoroughly reviewed the internal control system of the Company and regarded the existing system as complete, reasonable, effective, had no major flaws and complied with the requirements of applicable laws, regulations and rules, and can satisfy all the requirements of effective risk control in all material aspects.

### V. Training of Supervisors

During the reporting period, the Supervisors have attended two training sessions, covering the rights, obligations and legal responsibilities of supervisors of listed companies as well as disclosure obligations, basic principles of corporate governance and connected transactions. They were also updated on issues relevant to their role as supervisors by attending seminars and conferences and/or reading materials on financial, commercial, economic, legal, regulatory and business matters.

In 2020, the Supervisory Committee will fully perform its supervisory duties and strictly comply with the Company Law of the PRC, Articles of Association, Rules of Procedure for the Board of Supervisors and the relevant requirements under the Listing Rules, uphold the principle of integrity and effectively supervise the Company, the Directors and the senior management of the Company. Specifically, the Supervisors will closely monitor the production, operation and management of the Company, pay attention to major initiatives of the Company with an aim to boost the economic benefits of the Company and faithfully safeguard the interests of the all Shareholders and the Company.

*Chairman of the Supervisory Committee*

**Mr. WANG Fenghua**

Jilin, the PRC  
26 March 2021

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standard is essential for the Company to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has applied the principles as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, during the year ended 31 December 2020 and up to the date of this report, the Company has complied with all the code provisions as set out in the Corporate Governance Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the Directors, Supervisors and relevant employees of the Company. Upon making specific enquiries to all of the Directors, Supervisors and relevant employees of the Company, all Directors, Supervisors and relevant employees confirmed that during the year ended 31 December 2020, each of the Directors, Supervisors, and relevant employees has strictly complied with the required standards set out in the Model Code.

The Company is not aware of any incident of non-compliance with the Model Code committed by any Directors, Supervisors or relevant employees during the year ended 31 December 2020.

## BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the interests of the Company. The Board shall regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them. The Board currently consists of eight members, comprising four executive Directors, a non-executive Director and three independent non-executive Directors. The Board of the Company consists of the following Directors:

### Executive Directors

Mr. YANG Zhongshi (楊忠實)  
Mr. SHI Mingjun (史明俊)  
Mr. XU Chungang (徐純剛)  
Mr. LI Yeji (李業績)

### Non-executive Director

Mr. LIU Changchun (劉長春) (*Chairman of the Board*)

### Independent Non-executive Directors

Mr. WANG Yuguo (王玉國)  
Mr. FU Yachen (付亞辰)  
Mr. POON Pok Man (潘博文)

Biographical information of the Directors are set out in "Directors, Supervisors and Senior Management" section on pages 53 to 60 of this Annual Report. There are no financial, business, family or other material or relevant relationships between members of the Board.

## CORPORATE GOVERNANCE REPORT

### CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The positions of the chairman of the Board and the general manager of the Company are held separately. The role of chairman of the Board of the Company, Mr. LIU Changchun, is mainly responsible for the formulation of our corporate strategies and directing the activities of our Board, while the general manager, Mr. YANG Zhongshi, is mainly responsible for the overall management of business and operations of our Group including heat supply and heat supply related services, with specific focus on the general office, human resources department, internal audit department and resources management department.

The division of responsibilities between the chairman of the Board and the general manager is defined and established in writing.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2020 and up to the date of this report, the Board has been in compliance with relevant requirements of the Listing Rules, and has appointed at least three independent non-executive Directors (representing at least one-third of our Board), with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Directors has received written annual confirmation in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

### RE-ELECTION OF NON-EXECUTIVE DIRECTORS AND DIRECTORS

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment.

Each of the Directors of the Company has been appointed for a specific term of service of three years commencing from the date of appointment to the expiration of each appointment and is renewable upon re-election by Shareholders.

### RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the joint company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

## CORPORATE GOVERNANCE REPORT

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

For the year ended 31 December 2020, the Board held seven meetings to deal with various important matters of the Company.

### CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company will arrange internally-facilitated briefings for Directors and issue reading material on relevant topics to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year 2020, the Company provided two trainings for all Directors. Such training sessions cover a wide range of relevant topics including Directors' statements and undertakings, Supervisors' statements and undertakings, code for securities transactions by Directors and Supervisors, related insider dealing rules under the SFO, disclosable interests as required by SFO, management of information disclosure, continuing responsibilities for information disclosure (such as general matters and inside information), connected transactions and disclosable transactions. In addition, relevant reading materials including legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying. Each of the Directors has completed the aforementioned trainings.

### BOARD COMMITTEES

The Board has established four committees, namely, the audit committee, remuneration committee, nomination committee and strategy committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which state clearly their authority and duties. The terms of reference of all of the committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Members of each Board committee comprise independent non-executive Directors and the list of the chairperson and members of each Board committee are set out under "Corporate Information" on pages 247 to 248 of this Annual Report.

## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

As at the date of this report, the audit committee currently comprises three non-executive Directors, namely Mr. POON Pok Man (chairperson), Mr. LIU Changchun and Mr. WANG Yuguo, with the majority being independent non-executive Directors (including one independent non-executive Director with accounting expertise). None of the members of the audit committee is a former partner of the Company's existing auditors. The primary responsibilities of the audit committee include but not limited to supervising the Company's internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the audit committee is available on the Stock Exchange's website and the Company's website. For the work and reports of the audit committee on the risk management and internal control of the Company, please see the paragraph headed "Risk Management and Internal Control".

During the year ended 31 December 2020, the audit committee held five meetings and passed a total of 14 resolutions and made recommendations to the Board on such matters. The meetings focused on overseeing and reviewing the effectiveness of the Company's financial controls, internal controls and risk management, reviewing the annual connected transactions and the implementation thereof, and reviewing the Company's 2019 annual results and 2020 interim results and financial statements, as well as the appointment of the Company's external auditor for the year 2020 and the change of accounting standards for the preparation of financial statements.

### REMUNERATION COMMITTEE

As at the date of this report, the remuneration committee currently comprises three members, namely Mr. FU Yachen (chairperson), Mr. XU Chungang and Mr. POON Pok Man, with the majority being independent non-executive Directors. The primary responsibilities of the remuneration committee include but not limited to making recommendations to the Board of Directors on the Company's policy and structure for the remuneration of all the Company's Directors and senior management and on employee benefit arrangements. The terms of reference of the remuneration committee is available on the Stock Exchange's website and the Company's website.

During the year ended 31 December 2020, the remuneration committee held one meeting and made recommendations to the Board on such matters. The meeting focused on reviewing the remuneration of the Directors, Supervisors and senior management and the relevant remuneration policy and structure.

### NOMINATION COMMITTEE

As at the date of this report, the nomination committee currently comprises three members, namely Mr. WANG Yuguo (chairperson), Mr. YANG Zhongshi and Mr. FU Yachen, with the majority being independent non-executive Directors. The primary responsibilities of the remuneration committee include but not limited to making recommendations to the Board of Directors on the appointment and removal of Company's Directors and senior management, discussing Board Diversity Policy ("**Board Diversity Policy**") and ensuring the Board has continuously carried out their duty of corporate management. The terms of reference of the nomination committee is available on the Stock Exchange's website and the Company's website.

During the year ended 31 December 2020, the remuneration committee held one meeting and made recommendations to the Board on such matters. The meeting focused on overseeing and reviewing the structure, size, composition and diversity of the Board of the Company and re-examining the independence of the independent non-executive Directors. The leadership and contribution of the Directors were also reviewed, as well as the implementation of the Director Nomination Policy, corporate governance functions and policies of the Company.

The nomination committee considered an appropriate balance of diversity of the Board is maintained.

## CORPORATE GOVERNANCE REPORT

### STRATEGY COMMITTEE

As at the date of this report, the strategy committee currently comprises three members, namely Mr. LIU Changchun (chairperson), Mr. WANG Yuguo and Mr. SHI Mingjun. The primary responsibility of the strategy committee is to assist the Board of Directors in formulating and evaluating our mid- to long-term development strategy of the Company and its implementation plan, and to make recommendations to the Board on major corporate affairs, major investment and financing proposals. The terms of reference of the strategy committee is available on the Stock Exchange's website and the Company's website.

During the year ended 31 December 2020, the remuneration committee held three meetings and made recommendations to the Board on such matters. The meetings focused on reviewing the acquisition of 50% equity interests in Changchun FAW Sihuan Kinetic Company Limited\* (長春一汽四環動能有限公司) and the acquisition of 100% equity interests in Yatai Heating and reviewing the implementation of the Company's mid- to long-term strategic plan.

### BOARD DIVERSITY AND NOMINATION POLICY

In order to enhance the effectiveness of our Board and to maintain high standards of corporate governance, we have adopted the Board Diversity Policy which sets out the approach to achieve and maintain diversity on our Board. The Board Diversity Policy provides that our Company should endeavor to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and educational background, ethnicity and length of service.

Our Directors have a balanced mix of knowledge and skills, including overall management, strategies and planning, heating engineering, construction projects management, legal, finance and business administration. We have three independent non-executive Directors with different industry backgrounds, representing one third of the members of our Board. Taking into account our existing business model and specific needs as well as the different background of our directors, the composition of our Board satisfies our board diversity policy. Nevertheless, in recognizing the particular importance of gender diversity, our Company confirm that our nomination committee will, within three years from the Listing Date, identify and recommend one female candidate to our Board for its consideration on her appointment as director of our Company.

The nomination committee of our Board is responsible for reviewing our Board Diversity Policy from time to time to ensure its continued effectiveness. The effective implementation of the Board Diversity Policy requires that our Shareholders are able to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support. To this end, our Shareholders will be provided with detailed information of each candidate for appointment or re-election to the Board through announcements and circulars published prior to general meetings of our Company. Further, our implementation of the Board Diversity Policy will be disclosed in our annual report.

Going forward, to develop a pipeline of potential successors to the Board that could ensure gender diversity of our Board in a few years' time, our Company will (i) consider the possibility of nominating female senior management who has the necessary skills and experience to the Board; (ii) ensure that there is gender diversity when recruiting staff at mid to senior level; and (iii) engage more resources in training female staff with the aim of promoting them to the senior management or directorship of our Company.

## CORPORATE GOVERNANCE REPORT

The Company has formulated strict selection criteria in its director nomination policy. The nomination committee makes recommendations on the appointment of Board candidates or the re-appointment of existing members of the Board. The factors considered by the nomination committee when evaluating candidates include (but are not limited to) the following: (i) integrity; (ii) achievements, experience and reputation in heating business and other related industries; (iii) commitment to invest sufficient time, represent the interests of the sector and pay attention to the company's business; (iv) diversity in all aspects of the Board including, but not limited to, gender, age, cultural/educational and professional background, skills, knowledge and experience; (v) the ability to assist and support management and make a significant contribution to the Company's success; (vi) compliance with the independence requirements for the appointment of independent non-executive directors in accordance with Rule 3.13 and Rules A-5.5 of Appendix 14 to the Listing Rules; and (vii) any other relevant factors as determined from time to time by the nomination committee or the Board.

The appointment of any candidate for the Board of directors or the re-appointment of any existing member of the Board of directors must be conducted in accordance with the Company's articles of association and other applicable rules and regulations.

The Company has also established strict nomination procedures, including: (i) the company secretary must convene a meeting and invite members of the Board of directors to nominate candidates (if any) for consideration by the nomination committee. The nomination committee may also search extensively in the talent market and nominate candidates for consideration. Each candidate must provide a personal resume to the nomination committee; (ii) for the appointment of any candidate for the Board of Directors, the nomination committee must conduct adequate due diligence and make recommendations for consideration and approval by the Board; (iii) for the re-appointment of any existing members of the Board, the nomination committee must submit suggestions to the Board for consideration and make recommendations, so that candidates can be re-elected at general meetings; (iv) the procedures for shareholders to nominate any candidate for director election will be implemented in accordance with the "Procedures for Shareholders to Nominate Candidates for Election of Directors at General Meetings of the Company and Procedures for Dismissal of Directors by Shareholders"; and (v) the Board of Directors has the final decision on all matters concerning the election at the general meetings.



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

During the reporting period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with laws and regulations, the compliance with the Model Code and Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

## ATTENDANCE RECORDS OF DIRECTORS AND MEMBERS OF BOARD COMMITTEE

The attendance record of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2020 is set out in the table below:

### Attendance/number of meetings during the term of office

Name of Director	Attendance/number of meetings during the term of office					Shareholders'
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee	General Meeting
Mr. LIU Changchun (Chairman)	7/7	5/5			3/3	2/2
Mr. YANG Zhongshi	7/7			1/1		2/2
Mr. SHI Mingjun	7/7				3/3	2/2
Mr. XU Chungang	7/7		1/1			2/2
Mr. LI Yeji	7/7					1/2
Mr. WANG Yuguo	7/7	5/5		1/1	3/3	2/2
Mr. FU Yachen	7/7		1/1	1/1		2/2
Mr. POON Pok Man	7/7	5/5	1/1			1/2

Apart from regular Board meetings, the Chairperson also held two meetings with the independent non-executive Directors without the presence of executive Directors during the reporting period, mainly discussing about the acquisition of relevant assets of Changchun Qinggui Heat Supply Co., Ltd.\* (長春市輕軌供熱有限公司) and the acquisition of entire equity interests in Changchun Yangguang Heat Supply Co., Ltd.\* (長春市陽光供熱有限責任公司).

## RISK MANAGEMENT AND INTERNAL CONTROL

To comply with the requirements of risks management for listed companies, establish and improve the risk control and management system, process and warning mechanism as necessary for the operation of listed companies to ensure effective identification of risks, the Company further organized and conducted internal control and risks management, including analyzing the current status of the Company, analyzing and optimizing the difference between the actual and planned internal control, compiling an internal control manual, conducting internal control research, establishing risks management system, identifying and collecting risks facing the Company, compiling a risk response report and risk management manual for the year. During the course, the integrity, reasonableness, and the implementation of the internal control measures by various departments of the Company have been organized and reviewed to effectively control the possibility of the occurrence of such risks. The Company's risk management and control capabilities are enhanced as a whole so as to continuously enhance its core competitiveness.

## CORPORATE GOVERNANCE REPORT

The Board fully understands its responsibilities for risk management and internal control systems, and for reviewing their effectiveness. The systems aim to manage rather than eliminate the risks of the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The major internal control policies established by the Company include internal control evaluation manual, risk management system, accounting management system, financial management system and legal affairs management system. The management has confirmed to the Board and the audit committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2020.

The Board reviews the Company's risk management and internal control systems annually. The Board, as supported by the audit committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2020, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources. Arrangements/ Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its internal report system for significant information, which provides a general guide to the Company's Directors, executive officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020. The Directors are not aware of any material uncertainties relating to events or conditions that may significantly affect the Company's ability to operate as a going concern. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in "Auditor's Report" section on pages 61 to 65.

Where appropriate, a statement will be submitted by the audit committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the audit committee.

## CORPORATE GOVERNANCE REPORT

### AUDITOR'S REMUNERATION

The Company received a letter dated 2 December 2020 from Ernst & Young (“**Ernst & Young**”) which stated, among others, that as Ernst & Young understands that its proposed audit fee for the year ending 31 December 2020 was not ultimately agreed by the Company, after considering the fee and risk factors, it shall retire as the auditor of the Company immediately. In the above letter, Ernst & Young confirmed that in its opinion, there are no circumstances in connection with its retirement that needs to be brought to the attention of the shareholders of the Company. The Board and the audit committee of the Board confirmed that there is no disagreement between the Company and Ernst & Young regarding its retirement. The Board further confirmed that it is not aware of any matters regarding the retirement of Ernst & Young that needs to be brought to the attention of the shareholders of the Company.

On 22 December 2020, the Board and the audit committee of the Board proposed to appoint Da Hua as the auditor of the Company for the year ended 31 December 2020 to fill the vacancy arising from Ernst & Young’s retirement, which was approved by the Shareholders at the extraordinary general meeting held on 24 February 2021.

The remuneration paid or payable to the Company’s external auditor by the Company in respect of audit services and non-audit services for the year ended 31 December 2020 amounted to RMB1.2 million and nil (2019: RMB1.9 million and nil), respectively.

### JOINT COMPANY SECRETARIES

Mr. WAN Tao (“**Mr. Wan**”) and Mr. LEE Chung Shing (“**Mr. Lee**”) are the joint company secretaries of our Company. Ms. TONG Suet Fong (“**Ms. Tong**”) was appointed as a joint company secretary in February 2019 and resigned with effect from 14 August 2020. After Ms. Tong’s resignation, Mr. Lee was appointed as a joint company secretary on the same day. Mr. Wan has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules.

The Stock Exchange has granted a waiver to the Company from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules in respect of the acting of Mr. Wan as a joint company secretary of the Company for a period of three years (the “**Waiver Period**” i.e. 24 October 2019 to 23 October 2022) from the date of listing of the Company’s H shares on the Main Board of the Stock Exchange, being 24 October 2019, (the “**Waiver**”), on the condition that Mr. Wan will be assisted by Ms. Tong, the other joint company secretary of the Company, during the Waiver Period to acquire the relevant experience as is required of a company secretary under note 2 to Rule 3.28 of the Listing Rules and discharge his functions as a joint company secretary of the Company. The Waiver was revoked upon Ms. Tong’s resignation on 14 August 2020.

The Company has therefore applied to the Stock Exchange for, and the Stock Exchange has granted on 13 August 2020, a new waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules with respect to the eligibility of Mr. Wan to act as a joint company secretary of the Company (the “**New Waiver**”) for the remaining period of the Waiver from the date on which Mr. Lee is appointed as the other joint company secretary of the Company, being 14 August 2020 (the “**New Waiver Period**”, i.e. 14 August 2020 to 23 October 2022). The New Waiver is granted on the following conditions:

- i Mr. Wan will be assisted by Mr. Lee during the New Waiver Period;
- ii the Company shall notify the Stock Exchange at the end of the New Waiver;
- iii Period for the Stock Exchange to re-visit the situation. The Stock Exchange expects that after the end of the New Waiver Period, the Company will be able to demonstrate that Mr. Wan satisfies Rules 3.28 and 8.17 of the Listing Rules, having had the benefit of Mr. Lee’s assistance such that a further waiver will not be necessary; and
- iv the Company will announce the details of the New Waiver, including the reasons and conditions.

## CORPORATE GOVERNANCE REPORT

The New Waiver applies to this case only and will be revoked immediately if and when Mr. Lee ceases to provide assistance to Mr. Wan. The Stock Exchange may withdraw or change the New Waiver if the Company's situation changes.

Mr. Lee will work closely with Mr. Wan to jointly discharge the duties and responsibilities as company secretary and assist Mr. Wan to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. Mr. Wan will also be assisted by (a) Messis Capital Limited, the compliance adviser of our Company, particularly in relation to Hong Kong corporate governance systems and compliance issues; and (b) the Hong Kong legal advisers of our Company, on matters concerning our Company's ongoing compliance with the Listing Rules and the applicable laws and regulations. In addition, Mr. Wan will endeavor to attend relevant training and familiarize himself with the Listing Rules and duties required for a company secretary of a PRC issuer listed on the Hong Kong Stock Exchange. Mr. Wan, one of the joint company secretaries, has been designated as the primary contact person of the Company which would work and communicate with Mr. Lee on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2020, each of Mr. Wan and Mr. Lee has received no less than 15 hours of relevant professional training on reviewing the requirements under the Listing Rules and other compliance.

### SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a shareholders' communication policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The Company reviews the policy regularly to ensure its effectiveness.

To safeguard Shareholders' interests and rights, separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each Shareholders' meeting.

### CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Shareholders holding more than 10% of Shares (individually or together with others) of the Company shall be entitled to request for an extraordinary general meeting or class meeting.

Upon signing one or several written requests with the same content and format, and stating the subject of the meeting, the aforesaid Shareholders may request the Board to convene an extraordinary general meeting or class meeting. Shares held by the abovementioned Shareholders shall be calculated as at the date of submitting the written request.

### PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

When the Company convenes the general meeting, the Board of Directors, Supervisory Committee and Shareholders holding more than 3% of the shares of the Company separately or jointly are entitled to propose resolutions to the Company. The Shareholders holding more than 3% of the shares of the Company separately or jointly may submit ad-hoc proposals and submit them to the convener in writing ten days before the general meeting is held.

The proposal contents shall fall into the terms of reference of the general meeting. There shall be defined topics and specific matters for resolution. The proposal shall comply with the relevant provisions of the laws, administrative regulations and the Articles of Association.

## CORPORATE GOVERNANCE REPORT

### PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

### CONTACT DETAILS

Shareholders may send their written enquiries or requests through the following means:

Address: No. 28 Block B Nanhu Road Community  
No. 998 Nanhu Road  
Nanguan District, Changchun City  
Jilin Province  
PRC  
(For the attention of the secretary to the Board)

Email: cxgc-wt@ccrljt.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full names, contact details and identification in order to facilitate the Company to respond. Shareholders' information may be disclosed as required by law.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, non-executive Directors, independent non-executive Directors, and the chairman of all Board committees (or their delegates) will make themselves available at general meetings to meet Shareholders and answer their enquiries.

### THE ARTICLES OF ASSOCIATION

During the reporting period, on 30 March 2020, the Board has passed the resolution regarding the proposed amendments to the Articles of Association (the "**Proposed Amendments to the Articles of Association after the Listing**"). In view of (1) the State Council requested timely adjustments regarding the expiration period for holding general meetings by overseas listed companies; (2) certain provisions of the Company after the Listing are not applicable and need to be amended according to actual circumstances; (3) the need to further enhance corporate governance, the Proposed Amendments to the Articles of Association after the Listing were approved by the Shareholders at the extraordinary general meeting of the Company held on 24 May 2020.

On 22 December 2020, the Board has passed the resolution regarding the proposed amendments to the Articles of Association (the "**Proposed Amendments to the Articles of Association**"), which includes a proposed change of account standards. The Proposed Amendments to the Articles of Association also encompasses, among others, the adjustment of the notice period for convening general meetings of the Company in alignment with the relevant laws, rules and regulations and the restriction on registration of transfer of Shares before general meetings of the Company were held. Please refer to the circular dated 15 January 2021 for the full text of the Proposed Amendments to the Articles of Association. The Proposed Amendments to the Articles of Association were approved by the Shareholders at the extraordinary general meeting of the Company held on 24 February 2021 and the up-to-date version of the Articles of Association is available on the Company's website and the Stock Exchange's website.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### CHAIRMAN, NON-EXECUTIVE DIRECTOR      LIU CHANGCHUN

Mr. LIU Changchun (劉長春先生), aged 57, joined our Group in March 2016 and is currently the Chairman of our Board and a non-executive Director of our Company. Mr. LIU is mainly responsible for the formulation of our corporate strategies and directing the activities of our Board.

Prior to joining our Group, Mr. LIU had senior management experience for other corporate enterprises. From March 1996 to December 1997, he was the general manager of Jiutai Materials Corporation\* (九台市物資實業總公司) and the deputy general manager of its holding company Materials Group Corporation\* (物資集團總公司), a corporate group providing centralized procurement, management and materials supply services based in Jilin Province, the PRC. He was mainly responsible for overall operations management. From December 1997 to June 2000, he was the general manager of Jiutai City Industrial Corporation\* (九台市工業總公司), an industrial parts manufacturing company based in Jilin Province, the PRC. He was mainly responsible for the overall management of business and operations.

He served as government officials prior to joining our Group. From June 2000 to April 2010, he was the deputy mayor of Dehui City (德惠市), Changchun City, the PRC, and from June 2010 to September 2013, he was the Mayor of Dehui City (德惠市), Changchun City, the PRC. Subsequently, Mr. LIU was appointed by SASAC Changchun as a director, the chairman of the board of directors (from June 2014 to August 2014) and the general manager of Changchun Public Transport Group Co., Ltd.\* (長春公共交通 (集團) 有限公司), a local state-owned public transport enterprise based in Changchun City, the PRC. He was mainly responsible for operations management from April 2014 to March 2016.

Outside our Group, Mr. LIU has served in Changchun Heating Group, our Controlling Shareholder, as a director since March 2016 and as the chairman of the board since September 2016. Mr. LIU has served as the chairman in Jilin Province Xinda Investment Management Co., Ltd. (吉林省新達投資管理有限公司) and has served as a non-executive director in Jilin Chuncheng Investment Co., Ltd. (吉林省春城投資有限公司) since September 2018. Since December 2019, Mr. LIU has served in Yatai Heating as the chairman of the board (legal person).

Mr. LIU obtained a bachelor's degree in materials engineering from Jilin Institute of Engineering\* (吉林工學院) (now known as Changchun University of Technology (長春工業大學) in Jilin Province, the PRC, in July 1983 and a master's degree in business administration from Northeast Normal University (東北師範大學) in Jilin Province, the PRC, in June 2010. Mr. LIU has obtained the qualification as a senior engineer (正高級工程師) in heat treatment of metal materials (金屬材料熱處理) awarded by the Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳). Mr. LIU also passed exams in respect of legal, ethical and operational framework of funds (基金法律法規、職業道德與業務規範), fundamental knowledge in investment funds of private equity shares (私募股權投資基金基礎知識) and fundamental knowledge in investment funds of securities (證券投資基金基礎知識) organized by the Asset Management Association of China (中國證券投資基金業協會). Mr. LIU was also awarded the seventh batch of experts with outstanding contributions (第七批有突出貢獻專家榮譽稱號) jointly by the Changchun Municipal Chinese Communist Party's Committee (中共長春市委) and the People's Government of the Changchun Municipal (長春市人民政府). Mr. LIU was also awarded "Outstanding Entrepreneur of the Year" in the 10th China Securities Golden Bauhinia Awards.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### VICE CHAIRMAN, EXECUTIVE DIRECTOR, GENERAL MANAGER YANG ZHONGSHI

Mr. YANG Zhongshi (楊忠實先生), aged 54, joined our Group in April 1998 and is currently the vice chairman of the Board, an executive Director and the general manager of our Company, mainly responsible for overall management of business and operations of our Group including heat supply and heat supply related services, with specific focus on the general office, human resources department, internal audit department and resources management department.

Mr. YANG has approximately 30 years of working experience in the heating industry and held various senior management positions within our Controlling Shareholder Changchun Heating Group. He was the deputy chief engineer of Changchun Heating Group from December 2000 to December 2002 and was promoted to chief engineer since December 2002, mainly responsible for overall technology management. He served as the deputy general manager at Changchun Heating Group from February 2011 to April 2016, mainly responsible for production management, production safety management and end-users service management, and the general manager from April 2016 to May 2018, mainly responsible for overall business management and implementation of policies passed by the board of directors. Mr. YANG was appointed as a director of Changchun Heating Group from August 2017 to October 2019, mainly responsible for overall management of business and operation. Since May 2018, he has not participated in the daily operation of Changchun Heating Group and has been mainly responsible for formulation of corporate strategies. He was a director at Heating Engineering Design from September 2012 to July 2018, mainly responsible for overall management of business and operations. Mr. YANG has served as a director in Jilin Province Xinda Investment Management Co., Ltd. since June 2017 and in Yatai Heating since December 2019.

Mr. YANG graduated with a bachelor's degree in power plant thermal power engineering from Northeast China Institute of Electric Power Engineering (東北電力學院) (now known as Northeast Electric Power University (東北電力大學)) in Jilin Province, the PRC, in June 1989. Mr. YANG was accredited as a senior engineer in thermal energy engineering by Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳) in January 2013. He was appointed as a member of the technical expert committee of China District Heating Association (中國城鎮供熱協會) in March 2017.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTOR, DEPUTY GENERAL MANAGER

### SHI MINGJUN

Mr. SHI Mingjun (史明俊先生), aged 52, joined our Group in April 1998 and is currently an executive Director and the deputy general manager of our Company, mainly responsible for overall management of heat supply network construction projects as well as mergers and acquisitions and business development of our Group.

Mr. SHI has approximately 24 years of working experience in the heating industry. He held various positions within our Controlling Shareholder Changchun Heating Group and worked successively as manager assistant, deputy manager and manager of the construction development division from September 2000 to August 2009, mainly responsible for construction of thermal power plants network, overall management of business operations and formulation of business strategies. He then worked at Changchun Heating Group as the general manager assistant from August 2009 to August 2010 and was promoted to the position of deputy general manager from August 2010 to July 2018 mainly responsible for formulation of strategies and development plans of our Group and overall management of business operations. Mr. SHI was appointed as a director of Changchun Heating Group from November 2014 to January 2018, mainly responsible for overall management of construction projects. He has worked as the deputy general manager of our Company since July 2018. Mr. SHI has served in Datang Changre Jilin Heating Company Limited (大唐長熱吉林熱力有限公司) as a non-executive director since June 2017; as the chairman (legal person) in Jilin Province Xixing Energy Limited (吉林省西興能源有限公司) (formerly known as Changchun FAW Sihuan Kinetic Company Limited (長春一汽四環動能有限公司)) since October 2014 and subsequently re-designated as executive director (legal person) from June 2020 to August 2020; as an executive director and general manager in Jilin Province Chuncheng Biomass Power Co., Ltd from December 2018 to January 2020; and as a director in Yatai Heating since December 2019.

Mr. SHI obtained a bachelor's degree in civil engineering from Kunming University of Science and Technology (昆明理工大學) in Yunnan Province, the PRC, in October 2002 and a master's degree in senior executive business administration management from Jilin University (吉林大學) in Jilin Province, the PRC, in June 2012. Mr. SHI was accredited as a senior engineer in industrial and construction by Jilin Department of Personnel (吉林省人事廳) in January 2017.

### EXECUTIVE DIRECTOR, DEPUTY GENERAL MANAGER, FINANCIAL CONTROLLER XU CHUNGANG

Mr. XU Chungang (徐純剛先生), aged 47, joined our Group in May 2018 and is currently an executive Director, the deputy general manager and financial controller of our Company, mainly responsible for overall management of business plans, finance and legal matters of our Group.

Prior to joining our Group, Mr. XU had senior management experience for other corporate enterprises. He successively served at Changchun Water Group\* (長春水務集團), a local stated-owned water enterprise in the PRC, as the deputy head from December 2002 to February 2003, deputy head of corporate strategies from February 2003 to March 2005, head of corporate strategies from March 2005 to February 2006, head of finance department from February 2006 to March 2006, the deputy chief economist from May 2007 to May 2014, and general manager assistant from July 2010 to May 2014, mainly responsible for overall management of business plans and finance. From May 2014 to October 2016, he was promoted as the deputy general manager of Changchun Water (Group) Co., Ltd.\* (長春水務(集團)有限責任公司), mainly responsible for water discharge segment management and management of safety and legal matters. From December 2016 to April 2018, he was the general manager of Changchun Investment and Construction (Group) Co., Ltd.\* (長春城投建設投資(集團)有限公司), a company engages in infrastructure construction, investment and operations for Changchun City, the PRC, mainly responsible for overall management of business operation. In addition to his corporate experiences, Mr. XU served as the mayor assistant of Yushu City (榆樹市), Jilin Province, the PRC, mainly responsible for assisting the deputy mayor to manage agriculture industry from March 2006 to May 2007.

Mr. XU obtained a master's degree in laws from Jilin University (吉林大學) in Jilin Province, the PRC, in December 2008. Mr. XU was accredited as a senior accountant by Jilin Department of personnel (吉林省人事廳) in September 2005. Mr. XU passed the PRC judicial exam and received the qualification of legal profession (法律職業資格證) by Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in September 2002.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTOR LI YEJI

Mr. LI Yeji (李業績先生), aged 43, joined our Group in September 2001 and is currently an executive Director, and our manager of the construction management center, mainly responsible for overall management of construction projects of our Group.

Mr. LI has approximately 20 years of working experience in the PRC heating industry. He has held various positions within our Controlling Shareholder Changchun Heating Group and worked successively as the construction manager of the construction development division from September 2001 to May 2002, mainly responsible for coordination of construction projects; the process engineer of the technical department from May 2002 to April 2008, mainly responsible for process management of technical department; the deputy manager of Chaoyang Division One from April 2008 to March 2009 mainly responsible for production management and quality control; the deputy head of production department from March 2009 to March 2010 mainly responsible for operations and end-users services management; the deputy manager of Chaoyang Division Two from March 2010 to April 2012 mainly responsible for production management, quality control and management of technical equipment; the head of the integrated business planning department from April 2012 to May 2015 mainly responsible for overall management and operations planning; the head of the fuel management division and secretary from May 2015 to May 2017 mainly responsible for overall fuel management; deputy head of the construction management center from May 2017 to July 2017 mainly responsible for construction project management; and manager of the construction management center since December 2017 mainly responsible for construction project management. Mr. LI was seconded to Tianjin Jin'an Thermal Power Limited Liability Company\* (天津津安熱電有限責任公司) as deputy general manager from July 2017 to December 2017, mainly responsible for management of technology and production.

Mr. LI graduated from Jilin Institute of Architecture and Engineering\* (吉林建築工程學院) (now known as Jilin Jianzhu University (吉林建築大學) in Jilin Province, the PRC, with a bachelor's degree in heating ventilation and air conditioning engineering in July 2001. He was accredited as a senior engineer in heating, ventilation, and air conditioning by Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳) in January 2013.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTOR

### WANG YUGUO

Mr. WANG Yuguo (王玉國先生), aged 51, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. WANG has served as the chief of tourist office and head of investment promotion office at the Foreign Economic Agency of Dehui City, Jilin Province\* (吉林省德惠市對外經濟發展局) from March 2003 to February 2006, mainly responsible for management of tourism resources and the introduction of foreign investment, during which he also served as the director of foreign investment division at the Economic Department of Dehui City, Jilin Province\* (吉林省德惠市經濟局) from February 2006 to December 2010, mainly responsible for the introduction of foreign investment, during which he also served as the deputy head of Buhai County (布海鎮), Dehui City (德惠市) from May 2007 to June 2009, mainly responsible for management of human resources and modern agricultural projects. From December 2010 to December 2012, Mr. Wang was the general manager of Jilin Province Dehui City Investment Development Co., Ltd.\* (吉林省德惠市城市投資發展有限公司), a city project investment company and property developer, mainly responsible for management of the investment projects in Dehui City and the development and construction of real estate and infrastructure. From December 2012 to December 2015, Mr. WANG was the deputy manager of Dehui City Commercial State-Owned Assets Operation Company\* (德惠市商業國有資產經營公司), mainly responsible for introducing foreign investments to Dehui City. From December 2015 to June 2017, Mr. WANG served as the deputy chief at the Economic Department of Dehui City of Jilin Province\* (吉林省德惠市經濟局), mainly responsible for development and management of tourism resources and introduction of foreign investment projects. From June 2017 to April 2018, Mr. WANG was the deputy secretary general of Jilin Province City Heating Association\* (吉林省城鎮供熱協會), mainly responsible for assisting the chief secretary general to manage the association. He has served as the chief secretary general at Jilin Province City Heating Association\* (吉林省城鎮供熱協會) since April 2018, mainly responsible for research and consolidation of heat supply regulations at the state-level and provincial-level and the promotion of heat supply industries.

Mr. WANG graduated from Jilin Finance and Trading College\* (吉林財貿學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) in Jilin Province, the PRC, majoring in accounting in August 1992.

### INDEPENDENT NON-EXECUTIVE DIRECTOR

### FU YACHEN

Mr. FU Yachen (付亞辰先生), aged 67, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. FU has over 36 years of experience teaching in university. He worked successively as a lecturer and the deputy head of the faculty of finance at Jilin Finance and Trading College\* (吉林財貿學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) and Changchun Tax Institute\* (長春稅務學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) from July 1982 to December 1986, from January 1987 to December 1992 and from January 1993 to December 1998, respectively, mainly responsible for giving lectures. He was promoted as the department head of faculty of finance at Changchun Tax Institute\* (長春稅務學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) from January 1999 to December 2009, mainly responsible for administrative work. From January 2010 to December 2010, Mr. FU was the dean of the finance faculty of Jilin University of Finance and Economics (吉林財經大學) mainly responsible for management and administration. Mr. FU has been working as an advisor at Jilin Provincial Government since January 2012, mainly responsible for offering advice and supervising the government. He has been working as an independent director at Bank of Jilin (吉林銀行) from October 2014 to April 2020, mainly responsible for overseeing the management independently.

Mr. FU graduated Jilin Finance and Trading College\* (吉林財貿學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) in Jilin Province in July 1982 with a bachelor's degree in finance. Mr. FU was accredited as a professor with a specialty in finance by Jilin Department of personnel (吉林省人事廳) in November 1999. Mr. FU was also accredited as a qualified teacher in tertiary education institutes by the Ministry of Education of the PRC (中國國家教育委員會) in April 1997, and was awarded the renowned teacher of Jilin Province\* (吉林省教學名師) in 2009.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTOR

### POON POK MAN

Mr. POON Pok Man (潘博文先生), aged 36, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. POON has over 13 years of professional experience in corporate finance, corporate restructuring, financial reporting and auditing.

He is currently the chief financial officer and the assistant general manager of the shipping department of Asia Energy Logistics Group Limited (亞洲能源物流集團有限公司) (stock code: 351), mainly responsible for financial management, overseeing investment projects and fund raising activities.

Mr. POON graduated from the City University of Hong Kong (香港城市大學), with a bachelor's degree in Business Administration (Hons) with a major in accounting in November 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

### CHAIRMAN OF THE SUPERVISORY COMMITTEE

### WANG FENGHUA

Mr. WANG Fenghua (王風華先生), aged 54, is the Chairman of the Supervisory Committee of our Company. He was appointed as our Supervisor on 30 May 2018. Mr. WANG worked as the head of Changchun Heating Group construction development division from February 2001 to April 2004, mainly responsible for materials procurement. From April 2004 to April 2008, Mr. WANG successively worked as the deputy manager and chairman of the labor union at the construction development division of our Controlling Shareholder Changchun Heating Group, mainly responsible for procurement and management of the labor union. From April 2008 to November 2009, Mr. WANG was the head of procurement department of Changchun Heating Group, mainly responsible for materials procurement management. From November 2009 to September 2010, he worked as the general manager assistant at Changchun State-owned Capital Investment and Operation Co., Ltd.\* (長春市國有資本投資經營有限公司), mainly responsible for assisting the general manager to manage and operate state-owned properties. From September 2010 to February 2014, Mr. WANG worked as the chairman of the labor union at Changchun City Heat Supplies Operation Co., Ltd.\* (長春市供熱經營有限責任公司), mainly responsible for labor union matters. Mr. WANG was promoted to the position of deputy general manager of Changchun City Heat Supplies Operation Co., Ltd.\* (長春市供熱經營有限責任公司) from February 2014 to May 2015, mainly responsible for management of company resources and coal. Mr. WANG re-joined Changchun Heating Group in May 2015 and worked as the chairman of the labor union since then.

Mr. WANG obtained a bachelor's degree in engineering with a major in metals and preservation from Jilin Institute of Engineering\* (吉林工學院) (now known as Changchun University of Technology (長春工業大學)) in Jilin Province, the PRC, in July 1992 and a master's degree in business administration from Jilin University (吉林大學) in Jilin Province, the PRC, in June 2005. Mr. WANG was accredited as a senior engineer in heat supply equipment preservation by Jilin Department of personnel (吉林省人事廳) in January 2004.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### **SUPERVISOR           ZHANG WEI**

Ms. ZHANG Wei (張維女士), aged 40, is a Supervisor of our Company. She was appointed as our Supervisor on 30 December 2020. Ms. ZHANG qualified as an attorney-at-law of the PRC in 2016. Ms. ZHANG worked at Jilin Zhengji Law Firm (吉林正基律師事務所) from January 2008 to October 2017 and as a practicing attorney from September 2016. Since January 2018, Ms. ZHANG has been acting as the general counsel of Changchun State-owned Capital Investment Operation (Group) Co., Ltd.\* (長春市國有資本投資運營(集團)有限公司) .

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.

### **EMPLOYEE-REPRESENTATIVE SUPERVISOR           LI XIAOLING**

Ms. LI Xiaoling (李曉玲女士), aged 37, is an employee representative Supervisor of our Company. She was appointed as our Supervisor on 30 May 2018. Ms. LI worked successively as technician in the technical department from July 2006 to April 2008, mainly responsible for maintaining and operating the office automation system, archivist at the general manager office from April 2008 to May 2009, mainly responsible for managing the archives, back office administrator of the human resources department from May 2009 to October 2016, mainly responsible for training and management of technicians, assistant of the head of human resources department from October 2016 to July 2017, mainly responsible for human resources provision and staff training, and deputy head of human resources department from July 2017 to May 2018, mainly responsible for human resources management at our Controlling Shareholder Changchun Heating Group. From May 2018 to November 2019, Ms. LI worked as the deputy head of human resources department at our Company mainly responsible for the human resources management. Ms. LI has served as the deputy head of securities department (taking charge of work) mainly responsible for securities management.

Ms. LI graduated with a bachelor's degree in computer science and technology from Changchun University of Technology (長春工業大學) in Jilin Province, the PRC, in July 2006.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DEPUTY GENERAL MANAGER      ZHANG LIMING

Mr. ZHANG Liming (張黎明先生), aged 46, joined our Group in January 1999 and is currently the deputy general manager of our Company mainly responsible for production management, operations management of heating facilities and investment management. Mr. ZHANG held various position within our Controlling Shareholder Changchun Heating Group. He worked successively as head of production from January 1999 to April 2001 at Nanyi Division, mainly responsible for management of heating supply operation and quality control; manager assistant and deputy manager at Dongling Division from April 2001 to April 2006, mainly responsible for management of heating supply operation and quality control, as well as, overall management. He then worked as the manager of Erdao Division, mainly responsible for overall management of heat production and service fees from April 2006 to April 2009; the manager at Chaoyang Division Two from April 2009 to April 2010, mainly responsible for management of heat production and operation; the manager at Dongling Division, mainly responsible for overall management of heat supply operations from April 2010 to April 2014; head of construction development department from April 2014 to May 2017, mainly responsible for overall management of heat supply, technologies and safety matters; general manager assistant from December 2014 to May 2018, mainly responsible for project management; and an officer of construction management center from May 2017 to December 2017. He was the deputy chief engineer of Changchun Heating Group from December 2017 to May 2018, mainly responsible for overall management of heat supplies, technologies, safety matters and construction design.

Mr. ZHANG graduated with a bachelor's degree in thermal energy engineering with Harbin Institute of Technology (哈爾濱工業大學) in July 1996. Mr. ZHANG was accredited as a senior engineer in heat supply engineering by Jilin Department of Personnel (吉林省人事廳) in November 2007.

### BOARD SECRETARY, JOINT COMPANY SECRETARIES      WAN TAO

Mr. WAN Tao (萬滔先生), aged 34, joined our Group in May 2011 and is currently the Board secretary and general office manager of our Company. He was appointed as our Board secretary in May 2018 and our joint company secretary on 20 May 2019. Mr. WAN was the secretary and archivist and project statistician of Erdao Division of our Controlling Shareholder Changchun Heating Group from May 2011 to October 2012 and from October 2012 to May 2013, respectively, mainly responsible for news publication and preparing plans for heat production. He then worked as communications officer for the party branch at Changchun Heating Group from May 2013 to May 2015, mainly responsible for publications and media communications; deputy head of fuel management of Changchun Heating Group from May 2015 to May 2017, mainly responsible for securing coal supply for heat production; deputy director of office from May 2017 to May 2018, mainly responsible for management of the office. Mr. WAN has been the Board secretary and director of office of our Company since May 2018 responsible for organizing board meetings, shareholders' meetings, supervisors' committee preparation of documents and handling affairs in relation to our Group.

Mr. WAN graduated with a Bachelor of Arts degree with a major in Russian language from Beijing Normal University (北京師範大學) in Beijing, the PRC, in July 2009. He obtained board secretary qualification certificate from the Shanghai Stock Exchange (上海證券交易所) having completed training and exams in December 2017.

## AUDITOR'S REPORT

DaHuaShenZi [2021] no. 009727

To all shareholders of Jilin Province Chuncheng Heating Company Limited:

### 1. OPINION

We have audited the financial statements of Jilin Province Chuncheng Heating Company Limited (hereinafter "Chuncheng Heating"), which comprise the combined and parent company's statements of financial position as at 31 December 2020, and the combined and parent company's income statements, the combined and parent company's statements of cash flows, the combined and parent company's statements of changes in equity for the year 2020, and related notes to the financial statements.

In our opinion, the attached financial statements, which was prepared in accordance with the requirements of ASBEs in all material aspects, give a true and fair view of the combined and parent company's financial position of Chuncheng Heating as at 31 December 2020, and of the combined and parent company's financial performance and cash flows for the year 2020.

### 2. BASIS OF OPINION

We conducted our audit in accordance with the China Standards on Auditing. Our responsibilities under those standards are further described in the section headed "Auditor's Responsibilities for the Audit of the Financial Statements" of our report. We are independent of the Chuncheng Heating in accordance with the China Standards on Auditing's Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We determine that the following matters are key audit matters that need to be communicated in the audit report:

1. Recognition of revenue from heat supply
2. Expected credit loss on trade receivables

## AUDITOR'S REPORT

### (1) Recognition of revenue from heat supply

#### 1. Description of the matter

Please refer to Note IV(XXXI) and Remark 41 in Note VI to the combined financial statements for information on the accounting policies and carrying amounts related to the recognition of revenue from heat supply of Chuncheng Heating.

As the recognition of revenue from heat supply is a key performance indicator of the Company, there is an inherent risk that management may manipulate revenue to meet its objectives or expectations. Revenue from heat supply for the year 2020 amounted to RMB1,347,567.3 thousand, representing 75.27% of the operating income. Therefore, we have identified the recognition of revenue from heat supply as a key audit matter.

#### 2. Audit response

In the course of our audit of the financial statements for the current period, the key auditing procedures we implemented for recognition of revenue from heat supply include:

- (1) understand and assess the Management's internal control design relating to the recognition of revenue from heat supply and test the effectiveness of the implementation of key controls.
- (2) obtain maps of the heating pipelines to verify that residential communities in the billing system are located within the heat service area;
- (3) implement confirmation procedures for key industrial, commercial and residential customers to confirm the authenticity of revenue;
- (4) obtain household area floor plans drawn up by the community developers and compare them with the heat supply contract and heat billing system data to confirm the accuracy of the heat service area;
- (5) check pricing documents and heat supply contracts to confirm the unit price of heat supply;
- (6) check the reasonableness of revenue recognition by means of analytical review, etc.;
- (7) check bank receipts for consistency with the heat billing system;
- (8) perform IT audits to test the reliability of the heat supply billing system;
- (9) confirm the effectiveness of system controls relating to the heating billing system, the procurement management process of the Yonyou U8 system and the sales management process during the reporting period by using the method of information system application control testing, and verify the consistency of business data with financial data by performing recalculation through computer-aided audit techniques;
- (10) perform cut-off tests on revenue with a focus on whether there exists any material inter-period revenue.

Based on the audit procedures we have performed, in our opinion, the recognition of revenue from heat supply by Chuncheng Heating was appropriate.

## AUDITOR'S REPORT

### (2) Expected credit loss on trade receivables

#### 1. Description of the matter

Please refer to Note IV(X) and (XII) and Remark 4 in Note VI to the combined financial statements for information on the accounting policies and carrying amounts related to the expected credit loss on trade receivables of Chuncheng Heating.

The Management separately determines the credit losses on trade receivables for which sufficient evidence of expected credit loss can be assessed at the individual instrument level at a reasonable cost. If they cannot be determined separately, trade receivables are divided into various portfolios based on credit risk characteristics by reference to historical credit loss experience combined with current conditions and expectation of future economic conditions, and expected credit losses are calculated on a portfolio basis. As at 31 December 2020, Chuncheng Heating had trade receivables with carrying balance of RMB308,826.2 thousand and provision for expected credit loss of RMB41,731.2 thousand. As trade receivables are significant to the financial statements and the provision for expected credit loss on trade receivables involves significant accounting estimates and judgements made by the Management, therefore, we have identified the provision of expected credit loss on trade receivables as a key audit matter.

#### 2. Audit response

In the course of our audit of the financial statements for the current period, the key auditing procedures we implemented for the expected credit loss on trade receivables include:

- (1) understand, evaluate and test Chuncheng Heating's internal controls related to the provision for the expected credit loss on trade receivables.
- (2) for expected credit loss on trade receivables provided on an individual basis, review the basis used by the Management for assessing credit risk and the amount of expected credit losses, including the Management's assessment of credit risk in the context of the customer's background, current operating conditions, market environment and historical repayment history, and assess the timing and the reasonableness of the amount of provision.
- (3) for expected credit loss on trade receivables provided on a collective basis, assess the appropriateness of criteria used by the Management for classifying the groupings of credit risk characteristics, review the accuracy of the ageing classification, and analyse the reasonableness of the percentage of provision used by the Management by making peer industry comparison.
- (4) perform recalculation procedures on the breakdown of provision for expected credit loss prepared by the Management.
- (5) assess the appropriateness of the Management's accounting and disclosure of the expected credit loss on trade receivables.

Based on the audit procedures we have performed, in our opinion, the assessment and judgements made by the Management of Chuncheng Heating in relation to the expected credit loss on trade receivables were reasonable.



## AUDITOR'S REPORT

### 4. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management of Chuncheng Heating are responsible for the preparation of the financial statements that give a true and fair view in accordance with ASBEs, and to enable such internal control to be fairly reflected, designed, exercised and maintained as the Management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management of Chuncheng Heating are responsible for assessing Chuncheng Heating's ability to continue as a going concern, disclosing matters related to going concern (if applicable) and using going concern assumption unless the Management either intend to liquidate Chuncheng Heating or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Chuncheng Heating's financial reporting process.

### 5. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
4. conclude on the appropriateness of the Management's use of the going concern basis of assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Chuncheng Heating's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required in our auditor's report to draw the attention of the reporting user to the related disclosures in these financial statements or, if such disclosures are inadequate, we should issue qualified opinion. Our conclusions are based on the information obtained up to the date of our auditor's report. However, future events or conditions may cause Chuncheng Heating to cease to continue as a going concern.
5. evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## AUDITOR'S REPORT

6. obtain sufficient and appropriate audit evidence on the financial information of entities or business activities in Chuncheng Heating in order to express opinions on the financial statements. We are responsible for guiding, supervising and executing the audits of the Group and we take full responsibility for the audit opinions.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Da Hua Certified Public Accountants (Special General Partnership)

Chinese Certified

Public Accountant: \_\_\_\_\_

**Yang Lijie**

*(Engagement partner)*

**Beijing, China**

Chinese Certified

Public Accountant: \_\_\_\_\_

**Liu Xiuwen**

15 April 2021

# COMBINED STATEMENT OF FINANCIAL POSITION

31 December 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Asset	Note VI	Balance as at end of the period	Opening balance
<b>CURRENT ASSETS:</b>			
Monetary fund	Remark 1	732,404,368.33	701,816,908.02
Held-for-trading financial assets	Remark 2	50,000,000.00	
Derivative financial assets			
Bills receivable	Remark 3	222,510.02	
Trade receivables	Remark 4	267,095,015.96	312,375,021.90
Trade receivables financing	Remark 5	125,254,548.10	
Prepayments	Remark 6	449,878,210.82	386,832,657.01
Other receivables	Remark 7	1,438,269.57	167,579,682.40
Inventories	Remark 8	11,840,378.51	27,927,075.53
Contract assets	Remark 9	234,144,626.02	198,860,597.78
Assets held for sale			
Non-current assets due within one year			
Other current assets	Remark 10	4,482,464.04	4,669,271.89
<b>TOTAL CURRENT ASSETS</b>		<b>1,876,760,391.37</b>	<b>1,800,061,214.53</b>
<b>NON-CURRENT ASSETS:</b>			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	Remark 11		57,561,274.07
Other equity instrument investments			
Other non-current financial assets	Remark 12		52,665,407.00
Investment properties	Remark 13	7,870,252.37	8,226,794.33
Fixed assets	Remark 14	1,095,061,108.53	1,273,286,636.97
Construction-in-progress	Remark 15	34,512,027.00	9,107,099.15
Biological assets			
Right-of-use assets	Remark 16	1,327,022.64	2,503,529.98
Intangible assets	Remark 17	3,963,386.97	17,013,824.73
Development costs			
Goodwill	Remark 18	167,112,355.37	167,112,355.37
Long-term deferred expenditures	Remark 19	6,072,387.29	8,774,816.13
Deferred income tax assets	Remark 20	37,688,472.23	28,131,255.91
Other non-current assets			
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,353,607,012.40</b>	<b>1,624,382,993.64</b>
<b>TOTAL ASSETS</b>		<b>3,230,367,403.77</b>	<b>3,424,444,208.17</b>

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU ChangchunPerson in charge of accounting function:  
XU ChungangPerson in charge of audit firm:  
YU Fei

# COMBINED STATEMENT OF FINANCIAL POSITION

31 December 2020

Audited entity: Jilin Province Chungheng Heating Company Limited

(presented in RMB unless otherwise stated)

Liability and Equity	Note VI	Balance as at end of the period	Opening balance
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings	Remark 21		10,714,622.35
Held-for-trading financial liabilities			
Derivative financial liabilities			
Bills payable			
Trade payables	Remark 22	628,309,703.61	477,864,754.42
Advances	Remark 23	26,666.67	877,828.76
Contract liabilities	Remark 24	1,453,413,650.51	1,365,794,788.12
Salaries payable	Remark 25	32,336,488.23	21,901,023.53
Tax payable	Remark 26	71,439,085.69	61,919,439.58
Other payables	Remark 27	31,602,945.89	50,833,146.01
Liabilities held for sale			
Non-current liabilities due within one year	Remark 28	776,982.33	1,971,837.88
Other current liabilities	Remark 29	5,322,271.63	
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,223,227,794.56</b>	<b>1,991,877,440.65</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings			
Bonds payable			
Of which: Preference shares			
Perpetual bonds			
Lease liabilities	Remark 30	695,847.56	1,277,320.09
Long-term payables	Remark 31	2,775,074.00	52,079,492.29
Long-term salaries payable	Remark 32	27,710,000.00	21,920,485.72
Estimated liabilities	Remark 33	350,000.00	
Deferred income	Remark 34	55,339,935.37	54,837,101.32
Deferred income tax liabilities	Remark 20	42,122,859.33	38,025,090.73
Other non-current liabilities			
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>128,993,716.26</b>	<b>168,139,490.15</b>
<b>TOTAL LIABILITIES</b>		<b>2,352,221,510.82</b>	<b>2,160,016,930.80</b>
<b>EQUITY:</b>			
Share capital	Remark 35	466,700,000.00	466,700,000.00
Other equity instruments			
Of which: Preference shares			
Perpetual bonds			
Capital reserve	Remark 36	86,540,116.46	559,175,671.27
Less: Treasury stock			
Other comprehensive income	Remark 37	-618,857.1	1,903,246.11
Special reserves	Remark 38	8,145,911.11	5,147,376.47
Surplus reserve	Remark 39	31,277,344.38	20,101,026.90
Undistributed profits	Remark 40	286,101,378.10	211,399,956.62
Total owners' equity attributable to the parent company		878,145,892.95	1,264,427,277.37
Minority interests			
<b>TOTAL EQUITY</b>		<b>878,145,892.95</b>	<b>1,264,427,277.37</b>
<b>TOTAL LIABILITIES AND TOTAL EQUITY</b>		<b>3,230,367,403.77</b>	<b>3,424,444,208.17</b>

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU ChangchunPerson in charge of accounting function:  
XU ChungangPerson in charge of audit firm:  
YU Fei

# COMBINED INCOME STATEMENT

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Note VI	Current period	Previous period
I. TOTAL OPERATING INCOME	Remark 41	1,896,949,249.97	1,561,415,391.04
Less: Operating costs	Remark 41	1,589,495,581.53	1,270,077,330.82
Taxes and surcharges	Remark 42	5,983,582.34	4,168,845.42
Selling expenses	Remark 43		2,422,654.31
Administrative expenses	Remark 44	121,122,616.31	101,476,853.19
Research and development expenses	Remark 45	6,798,931.42	2,388,581.38
Financial costs	Remark 46	-3,932,301.94	-1,347,104.44
Of which: Interest expenses	Remark 46	9,612,921.67	4,823,873.85
Interest income	Remark 46	11,726,279.54	8,488,914.70
Add: Other income	Remark 47	11,679,580.60	16,917,975.71
Investment income	Remark 48	10,482,177.41	335,778.74
Of which: Investment income from associates and joint ventures			
Gain on derecognition of financial assets measured at amortized cost			
Net gain from hedging exposure			
Gain on changes in fair value	Remark 49	-2,665,407.00	
Credit impairment loss	Remark 50	-12,448,589.46	-12,728,804.81
Impairment loss on assets	Remark 51	-811,729.93	-7,174,065.88
Gain on disposal of assets			
II. OPERATING PROFIT		183,716,871.93	179,579,114.12
Add: Non-operating income	Remark 52	21,479,750.38	872,989.43
Less: Non-operating expenses	Remark 53	760,181.78	148,151.58
III. TOTAL PROFIT		204,436,440.53	180,303,951.97
Less: Income tax expenses	Remark 54	39,219,701.57	46,332,570.06
IV. NET PROFIT		165,216,738.96	133,971,381.91
Of which: Net profit realized by the acquiree before business combination involving entities under common control			
(I) Classified by continuity of operation			
Net profit from continuing operation		165,216,738.96	133,971,381.91
Net profit from discontinued operation			
(II) Classified by ownership			
Net profit attributable to owners of the parent company		165,216,738.96	133,971,381.91
Minority interests			

# COMBINED INCOME STATEMENT

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Note VI	Current period	Previous period
V. OTHER COMPREHENSIVE INCOME, NET OF TAX		-2,522,103.21	2,264,431.01
Other comprehensive income attributable to owners of the parent company, net of tax		-2,522,103.21	2,264,431.01
(I) Other comprehensive income that may not be reclassified to profit or loss		-2,522,103.21	2,264,431.01
1. Changes from re-measurement of defined benefit plans		-2,522,103.21	2,264,431.01
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value of the company's own credit risk			
5. Others			
(II) Other comprehensive income that may be reclassified to profit or loss			
1. Other comprehensive income that may be transferred to profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amounts of financial assets reclassified to other comprehensive income			
4. Credit impairment provision for other debt investments			
5. Reserves for cash flows hedges			
6. Differences on foreign currency translation			
7. Investment income arised from a package disposal of subsidiaries before the loss of control			
8. Conversion of other assets to investment property measured by fair value model			
9. Others			
Other comprehensive income attributable to minority shareholders, net of tax			
VI. TOTAL COMPREHENSIVE INCOME		162,694,635.75	136,235,812.92
Total comprehensive income attributable to owners of the parent company		162,694,635.75	136,235,812.92
Total comprehensive income attributable to minority shareholders			
VII. EARNINGS PER SHARE:			
(I) Basic earnings per share		0.35	0.35
(II) Diluted earnings per share		0.35	0.35

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei

# COMBINED STATEMENT OF CASH FLOWS

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Note VI	Current period	Previous period
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		1,866,941,734.90	1,559,830,667.70
Refund of taxes and surcharges		474,196.44	619,055.07
Cash received relating to other operating activities	Remark 55	671,810,440.08	413,033,698.47
Sub-total of cash inflows from operating activities		2,539,226,371.42	1,973,483,421.24
Cash paid for purchase of goods and receipt of services		1,452,332,159.16	1,330,689,069.22
Cash paid to and on behalf of employees		204,453,369.48	144,615,246.70
Payments of tax charges		86,929,294.63	86,343,701.35
Cash paid relating to other operating activities	Remark 55	378,760,443.74	137,023,751.30
Sub-total of cash outflows from operating activities		2,122,475,267.01	1,698,671,768.57
<b>Net cash flows from operating activities</b>		<b>416,751,104.41</b>	<b>274,811,652.67</b>
II. Cash flows from investing activities:			
Cash received from recovery of investments		10,000,000.00	
Cash received from returns on investments		4,280,485.09	3,175,676.71
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets			24,433.00
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities	Remark 55	13,979,764.46	876,835.78
Sub-total of cash inflows from investing activities		28,260,249.55	4,076,945.49
Cash paid to acquire fixed assets, intangible assets and other long-term assets		66,995,166.17	56,496,109.71
Cash paid to acquire investments		60,000,000.00	
Net cash paid to acquire subsidiaries and other operating entities			
Cash paid relating to other investing activities	Remark 55	200,000,000.00	
Sub-total of cash outflows from investing activities		326,995,166.17	56,496,109.71
<b>Net cash flows from investing activities</b>		<b>-298,734,916.62</b>	<b>-52,419,164.22</b>

## COMBINED STATEMENT OF CASH FLOWS

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Note VI	Current period	Previous period
III. Cash flows from financing activities:			
Cash received from capital contributions			247,972,329.00
Of which: Cash received from investment by minority shareholders to subsidiaries			
Cash received from borrowings		80,369,914.39	10,714,622.35
Cash received relating to other financing activities	Remark 55	884,055.75	6,297,000.00
<b>Sub-total of cash inflows from financing activities</b>		<b>81,253,970.14</b>	<b>264,983,951.35</b>
Cash paid for repayment of borrowings		91,084,536.74	108,000,000.00
Cash paid for distribution of dividends, profits or interest payment		79,030,267.82	4,777,301.71
Of which: Payments for distribution of dividends or profits to minority shareholders by subsidiaries			
Cash paid relating to other financing activities	Remark 55		30,366,057.48
Sub-total of cash outflows from financing activities		170,114,804.56	143,143,359.19
Net cash flows from financing activities		-88,860,834.42	121,840,592.16
IV. Effect of foreign exchange rate changes on cash and cash equivalents		2,432,106.94	-2,300,594.74
V. Net increase in cash and cash equivalents		31,587,460.31	341,932,485.87
Add: Cash and cash equivalents at beginning of the period		700,816,908.02	358,884,422.15
VI. Cash and cash equivalent at end of the period		732,404,368.33	700,816,908.02

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei



# COMBINED STATEMENT OF CHANGES IN EQUITY

Year 2020

Audited entity: Jilin Province Chungheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Current period									
	Owners' equity attributable to the parent company									
	Share capital	Other equity instruments	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Minority interests	Total owners' equity
I. Closing balance of previous year	466,700,000.00		135,199,471.27		1,903,246.11	5,147,376.47	20,101,026.90	211,399,956.62		840,451,077.37
Add: Change in accounting policy										
Correction of accounting errors for prior period										
Business combination under common control			423,976,200.00							423,976,200.00
Others										
II. Opening balance of current year	466,700,000.00		559,175,671.27		1,903,246.11	5,147,376.47	20,101,026.90	211,399,956.62		1,264,427,277.37
III. Changes during the year			-472,635,554.81		-2,522,103.21	2,998,534.64	11,176,317.48	74,701,421.48		-386,281,384.42
(I) Total comprehensive income					-2,522,103.21			165,216,738.96		162,694,635.75
(II) Owners' contribution and capital reduction										
1. Ordinary shares contribution by owners										
2. Capital invested by other equity instrument holders										
3. Share payment included in the owner's equity										
4. Others										
(III) Profit appropriation							11,176,317.48	-90,515,317.48		-79,339,000.00
1. Appropriation to surplus reserve							11,176,317.48	-11,176,317.48		
2. Distribution to shareholders								-79,339,000.00		-79,339,000.00
3. Others										
(IV) Internal transfer of owners' equity			-472,635,554.81							-472,635,554.81
1. Capital reserve transferred to share capital										
2. Surplus reserve transferred to share capital										
3. Surplus reserve make up for losses										
4. Changes of defined benefits plan transferred to retained earnings										
5. Other comprehensive income transferred to retained earnings										
6. Others			-472,635,554.81							-472,635,554.81
(V) Special reserve						2,998,534.64				2,998,534.64
1. Appropriation in the current period						2,998,534.64				2,998,534.64
2. Utilized in the current period										
(VI) Others										
IV. Closing balance of current year	466,700,000.00		86,540,116.46		-618,857.10	8,145,911.11	31,277,344.38	286,101,378.10		878,145,892.95

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU ChangchunPerson in charge of accounting function:  
XU ChungangPerson in charge of audit firm:  
YU Fei

# COMBINED STATEMENT OF CHANGES IN EQUITY

Year 2020

Audited entity: Jilin Province Chungheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Previous period									Total owners' equity
	Owners' equity attributable to the parent company									
	Share capital	Other equity instruments	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	Minority interests	
I. Closing balance of previous year	350,000,000.00		50,000,000.00		-361,184.90	3,803,751.95	9,432,810.02	89,474,651.90		502,350,028.97
Add: Change in accounting policy										
Correction of accounting errors for prior period										
Business combination under common control										
Others								-34,235.79		-34,235.79
II. Opening balance of current year	350,000,000.00		50,000,000.00		-361,184.90	3,803,751.95	9,432,810.02	89,440,416.11		502,315,793.18
III. Changes during the year	116,700,000.00		85,199,471.27		2,264,431.01	1,343,624.52	10,668,216.88	121,959,540.51		338,135,284.19
(I) Total comprehensive income					2,264,431.01			133,971,381.91		136,235,812.92
(II) Owners' contribution and capital reduction	116,700,000.00		85,199,471.27							201,899,471.27
1. Ordinary shares contribution by owners	116,700,000.00		85,199,471.27							201,899,471.27
2. Capital invested by other equity instrument holders										
3. Share payment included in the owner's equity										
4. Others										
(III) Profit appropriation							10,668,216.88	-10,668,216.88		
1. Appropriation to surplus reserve							10,668,216.88	-10,668,216.88		
2. Distribution to shareholders										
3. Others										
(IV) Internal transfer of owners' equity										
1. Capital reserve transferred to share capital										
2. Surplus reserve transferred to share capital										
3. Surplus reserve make up for losses										
4. Changes of defined benefits plan transferred to retained earnings										
5. Other comprehensive income transferred to retained earnings										
6. Others										
(V) Special reserve						1,343,624.52		-1,343,624.52		
1. Appropriation in the current period						1,343,624.52		-1,343,624.52		
2. Utilized in the current period										
(VI) Others										
IV. Closing balance of current year	466,700,000.00		135,199,471.27		1,903,246.11	5,147,376.47	20,101,026.90	211,399,956.62		840,451,077.37

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU ChangchunPerson in charge of accounting function:  
XU ChungangPerson in charge of audit firm:  
YU Fei

## STATEMENT OF FINANCIAL POSITION OF PARENT COMPANY

31 December 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited (presented in RMB unless otherwise stated)

Asset	Note XV	Closing balance	Opening balance
<b>CURRENT ASSETS:</b>			
Monetary fund		319,300,017.34	625,906,063.89
Held-for-trading financial assets		50,000,000.00	
Derivative financial assets			
Bills receivable			
Trade receivables	Remark 1	35,618,854.03	31,113,772.60
Trade receivables financing			
Prepayments		415,948,476.14	374,096,297.04
Other receivables	Remark 2	153,818,846.48	86,614,377.10
Inventories		7,008,947.74	8,021,231.44
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		776,785.10	768,368.38
<b>TOTAL CURRENT ASSETS</b>		<b>982,471,926.83</b>	<b>1,126,520,110.45</b>
<b>NON-CURRENT ASSETS:</b>			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	Remark 3	536,809,527.06	202,093,388.09
Other equity instrument investments			
Other non-current financial assets			
Investment properties		39,586.35	41,491.47
Fixed assets		812,418,216.29	849,274,149.55
Construction-in-progress		7,506,296.21	8,574,110.62
Biological assets			
Fuel and gas assets			
Right-of-use assets		469,716.92	1,025,927.57
Intangible assets		2,779,275.96	2,881,510.39
Development costs			
Goodwill			
Long-term deferred expenditures			
Deferred income tax assets		19,959,648.67	12,920,195.26
Other non-current assets			
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,379,982,267.46</b>	<b>1,076,810,772.95</b>
<b>TOTAL ASSETS</b>		<b>2,362,454,194.29</b>	<b>2,203,330,883.40</b>

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei

## STATEMENT OF FINANCIAL POSITION OF PARENT COMPANY

31 December 2020

Audited entity: Jilin Province Chungheng Heating Company Limited (presented in RMB unless otherwise stated)

Liability and Equity	Note XV	Closing balance	Opening balance
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings			10,714,622.35
Held-for-trading financial liabilities			
Derivative financial liabilities			
Bills payable			
Trade payables		294,481,450.91	121,542,492.29
Advances			
Contract liabilities		1,152,583,324.38	1,138,667,703.04
Salaries payable		19,207,880.11	17,761,425.95
Tax payable		27,895,057.38	27,059,269.69
Other payables		17,350,157.98	45,861,544.31
Liabilities held for sale			
Non-current liabilities due within one year		248,321.41	1,176,504.19
Other current liabilities			
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,511,766,192.17</b>	<b>1,362,783,561.82</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings			
Bonds payable			
Of which: Preference shares			
Perpetual bonds			
Lease liabilities		274,383.74	522,705.14
Long-term payables			
Long-term salaries payable		13,800,000.00	9,190,677.50
Estimated liabilities			
Deferred income		42,916,716.48	31,609,719.72
Deferred income tax liabilities			
Other non-current liabilities			
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>56,991,100.22</b>	<b>41,323,102.36</b>
<b>TOTAL LIABILITIES</b>		<b>1,568,757,292.39</b>	<b>1,404,106,664.18</b>
<b>EQUITY:</b>			
Share capital		466,700,000.00	466,700,000.00
Other equity instruments			
Of which: Preference shares			
Perpetual bonds			
Capital reserve		100,742,767.45	135,199,471.27
Less: Treasury stock			
Other comprehensive income		-1,298,857.10	1,903,246.11
Special reserves			
Surplus reserve		30,719,797.91	19,543,480.43
Undistributed profits		196,833,193.64	175,878,021.41
<b>TOTAL EQUITY</b>		<b>793,696,901.90</b>	<b>799,224,219.22</b>
<b>TOTAL LIABILITIES AND TOTAL EQUITY</b>		<b>2,362,454,194.29</b>	<b>2,203,330,883.40</b>

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei

# INCOME STATEMENT OF PARENT COMPANY

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Note XV	Current period	Previous period
<b>I. TOTAL OPERATING INCOME</b>	Remark 4	986,692,712.14	965,592,028.25
Less: Operating costs	Remark 4	793,624,380.22	769,252,656.15
Taxes and surcharges		1,061,417.50	818,015.79
Selling expenses			
Administrative expenses		72,187,982.52	70,183,023.96
Research and development expenses		2,361,421.06	
Financial costs		-11,073,388.52	-5,080,642.16
Of which: Interest expenses		1,675,167.82	142,457.53
Interest income		-10,685,463.58	-8,033,455.10
Add: Other income		7,394,165.74	16,792,556.75
Investment income	Remark 5	1,625,832.91	335,778.74
Of which: Investment income from associates and joint ventures			
Gain on derecognition of financial assets measured at amortized cost			
Net gain from hedging exposure			
Gain on changes in fair value			
Credit impairment loss		-1,481,661.19	-1,189,798.54
Impairment loss on assets			-4,859,676.67
Gain on disposal of assets			
<b>II. OPERATING PROFIT</b>		136,069,236.82	141,497,834.79
Add: Non-operating income		6,582,152.71	622,989.41
Less: Non-operating expenses			0.04
<b>III. TOTAL PROFIT</b>		142,651,389.53	142,120,824.16
Less: Income tax expenses		31,180,899.82	35,438,655.33
<b>IV. NET PROFIT</b>		111,470,489.71	106,682,168.83
(I) Net profit from continuing operation		111,470,489.71	106,682,168.83
(II) Net profit from discontinued operation			

**INCOME STATEMENT OF  
PARENT COMPANY**

Year 2020

Item	Note XV	Current period	Previous period
<b>V. OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		-3,202,103.21	2,264,431.01
<b>(I) Other comprehensive income that may not be reclassified to profit or loss</b>		-3,202,103.21	2,264,431.01
1. Changes from re-measurement of defined benefit plans, net		-3,202,103.21	2,264,431.01
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value of the company's own credit risk			
5. Other			
<b>(II) Other comprehensive income that may be reclassified to profit or loss</b>			
1. Other comprehensive income that may be transferred to profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amounts of financial assets reclassified to other comprehensive income			
4. Credit impairment provision for other debt investments			
5. Reserves for cash flows hedges			
6. Differences on foreign currency translation			
7. Investment income arised from a package disposal of subsidiaries before the loss of control			
8. Conversion of other assets to investment property measured by fair value model			
9. Other			
<b>VI. TOTAL COMPREHENSIVE INCOME</b>		108,268,386.50	108,946,599.84
<b>VII. EARNINGS PER SHARE:</b>			
(I) Basic earnings per share			
(II) Diluted earnings per share			

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU ChangchunPerson in charge of accounting function:  
XU ChungangPerson in charge of audit firm:  
YU Fei

## STATEMENT OF CASH FLOWS OF PARENT COMPANY

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Note XV	Current period	Previous period
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from sales of goods or rendering of services		969,448,195.56	942,103,551.56
Refund of taxes and surcharges		67,500.00	
Cash received relating to other operating activities		468,126,705.06	381,304,822.60
		-----	-----
Sub-total of cash inflows from operating activities		1,437,642,400.62	1,323,408,374.16
		-----	-----
Cash paid for purchase of goods and receipt of services		873,097,564.67	812,713,788.08
Cash paid to and on behalf of employees		122,866,282.21	120,182,978.45
Payments of tax charges		49,738,620.00	50,204,998.36
Cash paid relating to other operating activities		270,715,680.90	163,689,942.60
		-----	-----
Sub-total of cash outflows from operating activities		1,316,418,147.78	1,146,791,707.49
		-----	-----
<b>Net cash flows from operating activities</b>		<b>121,224,252.84</b>	<b>176,616,666.67</b>
		-----	-----
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash received from recovery of investments		10,000,000.00	
Cash received from returns on investments		2,829,290.12	3,175,676.71
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from disposal of subsidiaries and other operating entities			
Cash received relating to other investing activities			
		-----	-----
Sub-total of cash inflows from investing activities		12,829,290.12	3,175,676.71
		-----	-----
Cash paid to acquire fixed assets, intangible assets and other long-term assets		41,346,806.28	90,898,745.11
Cash paid to acquire investments		312,000,000.00	15,000,000.00
Net cash paid to acquire subsidiaries and other operating entities			
Cash paid relating to other investing activities			
		-----	-----
Sub-total of cash outflows from investing activities		353,346,806.28	105,898,745.11
		-----	-----
<b>Net cash flows from investing activities</b>		<b>-340,517,516.16</b>	<b>-102,723,068.40</b>
		-----	-----

## STATEMENT OF CASH FLOWS OF PARENT COMPANY

Year 2020

Item	Note XV	Current period	Previous period
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash received from capital contributions			237,756,688.97
Cash received from borrowings		80,369,914.39	10,714,622.35
Cash received relating to other financing activities			
Sub-total of cash inflows from financing activities		80,369,914.39	248,471,311.32
Cash paid for repayment of borrowings		91,084,536.74	
Cash paid for distribution of dividends, profits or interest payment		79,030,267.82	117,849.66
Cash paid relating to other financing activities			
Sub-total of cash outflows from financing activities		170,114,804.56	117,849.66
<b>Net cash flows from financing activities</b>		<b>-89,744,890.17</b>	<b>248,353,461.66</b>
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		2,432,106.94	-2,167,658.96
<b>V. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		-306,606,046.55	320,079,400.97
Add: Cash and cash equivalents at beginning of the period		625,906,063.89	305,826,662.92
<b>VI. CASH AND CASH EQUIVALENT AT END OF THE PERIOD</b>			
		<b>319,300,017.34</b>	<b>625,906,063.89</b>

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei



## STATEMENT OF CHANGES IN EQUITY OF PARENT COMPANY

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Current period							Total owners' equity	
	Share capital	Other equity instruments	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve		Undistributed profits
I. Closing balance of previous year	466,700,000.00		135,199,471.27		1,903,246.11		19,543,480.43	175,878,021.41	799,224,219.22
Add: Change in accounting policy									
Correction of accounting errors for prior period									
Other									
II. Opening balance of current year	466,700,000.00		135,199,471.27		1,903,246.11		19,543,480.43	175,878,021.41	799,224,219.22
III. Changes during the year			-34,456,703.82		-3,202,103.21		11,176,317.48	20,955,172.23	-5,527,317.32
(I) Total comprehensive income					-3,202,103.21			111,470,489.71	108,268,386.50
(II) Owners' contribution and capital reduction									
1. Ordinary shares contribution by owners									
2. Capital invested by other equity instrument holders									
3. Share payment included in the owner's equity									
4. Other									
(III) Profit appropriation							11,176,317.48	-90,515,317.48	-79,339,000.00
1. Appropriation to surplus reserve							11,176,317.48	-11,176,317.48	
2. Distribution to shareholders								-79,339,000.00	-79,339,000.00
3. Other									
(IV) Internal transfer of owners' equity			-34,456,703.82						-34,456,703.82
1. Capital reserve transferred to share capital									
2. Surplus reserve transferred to share capital									
3. Surplus reserve make up for losses									
4. Changes of defined benefits plan transferred to retained earnings									
5. Other comprehensive income transferred to retained earnings									
6. Other			-34,456,703.82						-34,456,703.82
(V) Special reserve									
1. Appropriation in the current period									
2. Utilized in the current period									
(VI) Other									
IV. Closing balance of current year	466,700,000.00		100,742,767.45		-1,298,857.10		30,719,797.91	196,833,193.64	793,696,901.90

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei

## STATEMENT OF CHANGES IN EQUITY OF PARENT COMPANY

Year 2020

Audited entity: Jilin Province Chuncheng Heating Company Limited

(presented in RMB unless otherwise stated)

Item	Previous period							Total owners' equity	
	Share capital	Other equity instruments	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve		Undistributed profits
I. Closing balance of previous year	350,000,000.00		50,000,000.00		-361,184.90		8,875,263.55	79,864,069.46	488,378,148.11
Add: Change in accounting policy									
Correction of accounting errors for prior period									
Other									
II. Opening balance of current year	350,000,000.00		50,000,000.00		-361,184.90		8,875,263.55	79,864,069.46	488,378,148.11
III. Changes during the year	116,700,000.00		85,199,471.27		2,264,431.01		10,668,216.88	96,013,951.95	310,846,071.11
(I) Total comprehensive income					2,264,431.01			106,682,168.83	108,946,599.84
(II) Owners' contribution and capital reduction	116,700,000.00		85,199,471.27						201,899,471.27
1. Ordinary shares contribution by owners	116,700,000.00		131,272,329.00						247,972,329.00
2. Capital invested by other equity instrument holders									
3. Share payment included in the owner's equity									
4. Other			-46,072,857.73						-46,072,857.73
(III) Profit appropriation							10,668,216.88	-10,668,216.88	
1. Appropriation to surplus reserve							10,668,216.88	-10,668,216.88	
2. Distribution to shareholders									
3. Other									
(IV) Internal transfer of owners' equity									
1. Capital reserve transferred to share capital									
2. Surplus reserve transferred to share capital									
3. Surplus reserve make up for losses									
4. Changes of defined benefits plan transferred to retained earnings									
5. Other comprehensive income transferred to retained earnings									
6. Other									
(V) Special reserve									
1. Appropriation in the current period									
2. Utilized in the current period									
(VI) Other									
IV. Closing balance of current year	466,700,000.00		135,199,471.27		1,903,246.11		19,543,480.43	175,878,021.41	799,224,219.22

(The accompanying notes form an integral part of these combined financial statements)

Legal representative:  
LIU Changchun

Person in charge of accounting function:  
XU Chungang

Person in charge of audit firm:  
YU Fei

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## I. GENERAL INFORMATION OF THE COMPANY

### (I) History, Place of Registration, Type of Organisation and Address of Headquarter

#### 1. *Limited liability phase*

Jilin Province Chuncheng Heating Company Limited (the “Company” or the “Group”), formally known as Jilin Province Changre New Energy Co., Ltd., is a company established by Changchun Heating Power (Group) Company Limited\* (長春市熱力(集團)有限責任公司) with a total registered capital of RMB50.00 million at the time of establishment. The Company has obtained a legal enterprise business license (no. 220101000502062) approved and issued by the Changchun Administration Bureau for Industry and Commerce on 23 October 2017.

The Company changed its name to Jilin Province Chuncheng Heating Company Limited on 30 March 2018.

On 26 April 2018, with the approval of SASAC Changchun, Changchun Heating Power (Group) Company Limited, Changchun State-owned Capital Investment Operation (Group) Co., Ltd.\* (長春市國有資本投資運營(集團)有限公司) and the Company entered into a capital increase agreement, pursuant to which the registered capital of the Company has increased to RMB53,763,400.

#### 2. *Shareholding reorganization*

Jilin Province Chuncheng Heating Company Limited held a general meeting and passed the resolution on comprehensive change to become a joint stock company with limited liability. According to the promoters’ agreement and the Articles of Association, Jilin Province Chuncheng Heating Company Limited made a comprehensive change from a limited liability company to become a joint stock limited liability company with a registered capital of RMB3.5 billion, which was contributed by each of the promoters by converting the net assets owned by them as at 30 April 2018 into shares. As at 30 April 2018, the audited net assets of Jilin Province Chuncheng Heating Company Limited amounted to a total of RMB522,908,077.64, which was converted into a total of 350,000,000 shares with a par value of RMB1 per share, and the proportion of capital contribution by each shareholders before and after the conversion remained unchanged. The above changes were verified by a capital verification report titled Ruihua Yan (2008) No. 02380003 issued by Ruihua Certified Public Accountants (Special General Partnership) on 30 May 2018. The Company completed business registration procedures and obtained legal enterprise business license (no. 91220101MA14W03575) on 30 May 2018.

The Company was listed in the Hong Kong Stock Exchange in October 2019. With the approval of the securities authority of the State Council, the Company may make an initial public offering of 116.7 million overseas listed foreign shares to foreign investors, all of which are H shares.

#### 3. *Place of registration and address of headquarter*

Following the bonus issue, placing of new shares, transferring of capital and issue of new shares over the years, as at 31 December 2020, the Company has share capital of 466.70 million Shares, with a registered capital of RMB466.70 million. Our registered address is: 28/F (Hong Cheng Xiyu), 998 Nanhu Avenue, Nanguan District Sub-district B, Changchun, Jilin Province, the PRC; our headquarter address is: 28/F (Hong Cheng Xiyu), 998 Nanhu Avenue, Nanguan District Sub-district B, Changchun, Jilin Province, the PRC. Our parent company is Changchun Heating Power (Group) Company Limited and the ultimate beneficial owner of the Group is SASAC Changchun.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## I. GENERAL INFORMATION OF THE COMPANY (CONTINUED)

### (II) Business Nature and Major Operating Activities of the Company

The Company engages in the heat supply industry and its main products and services are: new energy technology development; heating production and supply; heating engineering design and installation services; contract energy management; sales of cables, electrical equipment, household appliances, flooring, floor tiles, thermostats and heating accessories (those businesses that are prohibited by the laws, regulations and decisions of the State Council shall not be operated)

### (III) Approval of the Financial Statements

These financial statements have been approved for issue by all Directors of the Company on 26 March 2021.

## II. SCOPE OF COMBINED FINANCIAL STATEMENTS

During the period, 10 subsidiaries were consolidated into the combined financial statements, which were:

Name of Subsidiary	Type of Subsidiary	Tier	Percentage of Shareholding (%)	Percentage of Voting Rights (%)
Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司)	wholly-owned subsidiary	2	100	100
Changchun City Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司)	wholly-owned subsidiary	2	100	100
Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司)	wholly-owned subsidiary	2	100	100
Jilin Province Heating Engineering Design and Research Company Limited* (吉林省熱力工程設計研究有限責任公司)	wholly-owned subsidiary	2	100	100
Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱儀錶電氣有限公司)	wholly-owned subsidiary	2	100	100
Jilin Province Chuncheng Biomass Power Co., Ltd.* (吉林省春城生物質能源有限公司)	wholly-owned subsidiary	2	100	100
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	wholly-owned subsidiary	2	100	100
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	wholly-owned subsidiary	2	100	100
Jilin Province Hengda New Energy Technology Development Company Limited* (吉林省恒達新能源科技發展有限公司)	wholly-owned subsidiary	3	100	100
Jilin Province Hengxin Electricity Co. Ltd.* (吉林省恒信售電有限公司)	wholly-owned subsidiary	3	100	100

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### II. SCOPE OF COMBINED FINANCIAL STATEMENTS (CONTINUED)

The number of entities that were consolidated into the scope of the combined financial statements has increased by 4 during the period as compared with the previous period, where:

#### 1. Subsidiaries newly consolidated into the scope of combination during the period

Name	Reason for change
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	Business combination under common control
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	Business combination not under common control
Jilin Province Hengda New Energy Technology Development Company Limited* (吉林省恒達新能源科技發展有限公司)	Business combination not under common control
Jilin Province Hengxin Electricity Co. Ltd.* (吉林省恒信售電有限公司)	Business combination not under common control

Particulars of changes in scope of combination are set out in "Note VII. Changes in the Scope of Combination".

### III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

#### (I) Basis of Preparation of the Financial Statements

The financial statements of the Company were prepared according to the transactions and matters actually occurred, and recognitions and measurements were made in accordance with the Accounting Standards for Enterprises – Basic Standards published by the Ministry of Finance and specific accounting standards, guidance on application of accounting standards for enterprises, interpretations to accounting standards for enterprises and other relevant requirements (the "ASBEs"). On this basis, the financial statements were also prepared in conjunction with the provisions of the "Regulations on Information Disclosure and Compilation of Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting" (revised in 2014) issued by the China Securities Regulatory Commission.

#### (II) Going Concern

Pursuant to the Company's assessment on the continuing operation ability of the Company within 12 months since the end of the reporting period, no matters or events that may raise any material doubts on the continuing operation ability of the Company was discovered, and thus these financial statements were prepared under going concern basis.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (I) Notes to Specific Accounting Policies and Accounting Estimates

The Company have formulated certain specific accounting policies and accounting estimates in accordance with the production and operation characteristics, including the method of calculating the provision of the expected credit loss on trade receivables (Note IV (XII)) and the timing of revenue recognition (Note IV (XXXI)).

### (II) Disclaimer of Compliance with the ASBEs

The financial statements have been prepared by the Company in conformity with the ASBEs; and truly and completely reflected the information such as financial position, operation results, and cash flow, etc. of the Company during the reporting period.

### (III) Accounting Period

The accounting year of the Company is from 1 January to 31 December of the Gregorian calendar.

### (VI) Reporting Currency

The reporting currency of the Company is Renminbi ("RMB").

### (V) Accounting Treatments of Business Combinations Involving Entities under Common Control and Entities not under Common Control

1. *If the terms, conditions and economic effects of transactions for the purpose of realizing business combination in phases, fall into one or more of the following situations, then multiple transactions are regarded as a group of transactions for accounting treatment:*

- (1) these transactions were entered into at the same time or after considering the effects of other transactions;
- (2) only when regarding these transactions as a whole, can they achieve a complete business result;
- (3) the occurrence of one transaction depends on the occurrence of at least one other transaction;
- (4) a transaction alone is not economical, but it is economical when considering together with other transactions.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (V) Accounting Treatments of Business Combinations Involving Entities under Common Control and Entities not under Common Control (Continued)

##### 2. *Business combinations involving entities under common control*

The assets and liabilities acquired by the Company in business combination shall be measured at the carrying amount of the assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the combined financial statements of the ultimate controlling party at the date of business combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the business combination (or total nominal value of the issued shares) is adjusted to share premium in capital reserve. If the share premium in capital reserve is not sufficient to eliminate the difference, the remaining balance is adjusted against retained earnings.

If there is any contingent consideration required to be recognized as estimated liabilities or assets, capital reserve (capital premium or share premium) is adjusted by the difference between the amount of such estimated liabilities or assets and the amount of settlement of subsequent contingent consideration. When the capital reserve is insufficient, the remaining balance is adjusted against retained earnings.

For business combination finally realized after multiple transactions, in case of a group of transactions, those transactions are accounted as one transaction to acquire the control; in case of a transaction not included in a group of transactions, on the date of acquisition of the control, the capital reserve is adjusted by the difference between the initial investment cost of long-term equity investment and the sum of the carrying amount of the long-term equity investment before the combination and the carrying amount of the new payment consideration for further acquisition of shares on the date of combination; where the capital reserve is insufficient to eliminate, the remaining balance is adjusted against retained earnings. For the equity investment held before the date of business combination, the other comprehensive income recognized under equity method or financial instrument recognition and measurement standards are not accounted until the same accounting treatment for direct disposal of relevant assets or liabilities of the investee is adopted for the disposal of such investment; changes in the owners' equity other than the net losses and profits, other comprehensive income and profit distribution in the net assets of the investee that is recognized under the equity method, are not accounted until disposal of such investment is transferred to current profit and losses.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (V) Accounting Treatments of Business Combinations Involving Entities under Common Control and Entities not under Common Control (Continued)

##### 3. *Business combinations involving entities not under common control*

The acquisition date refers to the date on which the Company actually obtained control over the acquiree, i.e. the date when the acquiree's net assets or the control of production and operation decisions were transferred to the Company. When the following conditions are met at the same time, the Company is generally of the view that the transfer of control has been achieved:

1. A business combination contract or agreement has been approved by the Company's internal authority.
2. Approval for business combination matters from relevant national regulatory authority has been obtained.
3. The necessary procedures for the transfer of property rights have been completed.
4. The Company has already paid most of the combination consideration, has the ability and plans to pay the remaining amount.
5. The Company has the actual control of the financial and operating policies of the acquiree, enjoyed corresponding benefits and assumed corresponding risks.

The assets paid and liabilities incurred or committed as a consideration of business combination by the Company were measured at fair value on the date of acquisition and the difference between the fair value and its carrying amount shall be charged to the profit or loss for the period.

Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, the Company shall recognize such difference as goodwill; where the cost of combination is lower than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to the profit or loss for the period after verification.

In a business combination involving entities not under common control that is realized in phases through multiple exchange transactions, in case of a group of transactions, those transactions are accounted as one transaction to acquire the control; in case of transactions not included in a group of transactions, where the equity investment held before the date of business combination is accounted under equity method, the sum of the carrying amount of the equity investment held by the acquiree before the date of acquisition and the cost of new investment on the date of acquisition are recognized as the initial investment cost of such investment; for the other comprehensive income recognized under equity method on the equity investment held before the date of acquisition is accounted on the same basis as adopted for direct disposal of relevant assets or liabilities of the investee. Where the equity investment held before the date of business combination is accounted based on the recognition and measurement standards for financial instruments, the sum of the fair value of such equity investment on the date of business combination and the new investment cost are accounted as the initial investment cost on the date of business combination. The difference between the fair value of the original equity and its carrying amount and the accumulative fair value changes originally included in the other comprehensive income are transferred to current investment income on the date of business combination.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (V) Accounting Treatments of Business Combinations Involving Entities under Common Control and Entities not under Common Control (Continued)

#### 4. *Relevant expenses in relation to business combination*

All directly related fees for audit, legal, assessment and consultation occurred for the purpose of business combination are credited in profit or loss in the period when they incurred; trading fees for issue of equity securities occurred for the purpose of business combination shall be included in equity transaction and directly charged to equity.

### (VI) Preparation of Combined Financial Statements

#### 1. *Scope of Combination*

The scope of combination of the combined financial statements of the Company is determined on the basis of control. All subsidiaries (including individual entities controlled by the Company) are included in the combined financial statements.

#### 2. *Procedures of Combination*

The combined financial statements shall be prepared by the Company based on the financial statements of the Company and its subsidiaries and other relevant information. When the Company prepares combined financial statements, the whole Company is considered as a single accounting entity pursuant to recognition, measurement and presentation requirements of relevant ASBEs and based on the consistent accounting policies to reflect the Company's overall financial position, operating results and cash flows.

All subsidiaries within the scope of combination of the combined financial statements shall adopt the same accounting policies and financial period as the Company. If there is any inconsistency between the accounting policies or financial period adopted by the subsidiaries and the Company, the combined financial statements of subsidiaries are adjusted according to the accounting policies or financial period adopted by the Company as necessary.

When consolidating the financial statements, the effects on the combined balance sheets, combined statements of income, combined statements of cash flow and combined statements of changes in shareholders' equity due to internal transactions between the Company and its subsidiaries and among the subsidiaries shall be offset. For the combined financial statements of the Company, when there is divergence in the recognition of a single transaction between the Company and its subsidiaries as an accounting entity, the Company's position shall be taken up for adjustment on such transaction.

The owner's equity, the net profit or loss and the comprehensive income attributable to minority shareholders of a subsidiary of the current period are presented separately under the owners' equity in the combined balance sheet, the net profit and the total comprehensive income in the combined statement of income. Where losses attributable to the minority shareholders of a subsidiary during the period exceed the minority shareholders' interest entitled in the owners' equity of the subsidiary at the beginning of the period, the excess is eliminated in the minority shareholders interest.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (VI) Preparation of Combined Financial Statements (Continued)

#### 2. *Procedures of Combination (Continued)*

For a subsidiary under the common control and was acquired through business combination, the financial statements shall be adjusted based on the carrying amount of its assets and liabilities (including the goodwill incurred by the ultimate controlling party's acquisition of the subsidiary) in the ultimate controlling party's financial statements.

For a subsidiary not under the same control and was acquired through business combination, the financial statements should be adjusted based on the fair value of the identifiable net assets at the acquisition date.

#### (1) *Addition of subsidiary or business*

For acquisition of subsidiary or business due to business combination involving entities under common control during the reporting period, the opening balance of the combined balance sheet shall be adjusted; the revenue, expense and profit of such subsidiary or business combination from the beginning to the end of the reporting period when the merger occurs are included in the combined statement of income; the cash flows of such subsidiary or business combination from the beginning to the end of the reporting period when the merger occurs are included in the combined statement of cash flow, and the comparative figures of the financial statements shall be adjusted simultaneously as if the combined reporting entity had been in existence since the beginning of the control by the ultimate controlling party.

An investor that may impose control over the investee under common control due to additional investment shall be deemed a party participating in the combination, and shall be adjusted at current existence status when the ultimate controlling party begins the control. The equity investment held before gaining the control of the combined party is recognized as relevant profit or loss, other comprehensive income and changes in other net assets at the later of the date of acquisition of the original equity and the date when the combining and the combined parties are under common control, and shall be written down to the opening balance of retained earnings or profit or loss for the period in the comparative reporting period.

For acquisition of subsidiaries or business due to business combination involving entities not under common control during the reporting period, the opening balance of combined balance sheet needs not be adjusted; the revenue, expense and profit of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the combined statement of income; the cash flows of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the combined statement of cash flow.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (VI) Preparation of Combined Financial Statements (Continued)

#### 2. Procedures of Combination (Continued)

##### (1) Addition of subsidiary or business (Continued)

In connection with imposing control over the investee not under common control as a result of additional investment and other reasons, the equity of acquiree held before acquisition date shall be remeasured by the Company at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be recognized as investment income in current period; if the acquiree's equity held before the acquiring date contains other comprehensive income and the other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions under the equity method, the related other comprehensive income and changes in other owner's equity shall be transferred to investment income on the date of acquisition in current period, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

##### (2) Disposal of subsidiaries or business

###### 1) General treatment

For disposal of subsidiaries or business during the reporting period, the revenue, expense and profit of such subsidiaries or business from the beginning of the period to the date of disposal are included in the combined statement of income; the cash flows of such subsidiaries or business from the beginning of the period to the date of disposal are included in the combined statement of cash flow.

Where control of the investee is lost due to partial disposal of the equity investment, or any other reasons, the remaining equity investment is remeasured at fair value at the date in which control is lost by the Company. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the difference between the sum of the Company's previous share of the subsidiary's net assets continuously calculated on the basis of the original share proportion and the sum of goodwill, is recognized in investment income in the period in which control is lost. Other comprehensive income or net profit and loss related to the previous equity investment in the subsidiary, changes in other owner's equity except the other comprehensive income and profit distribution, are transferred to investment income of the current period when control is lost, except the other comprehensive income as a result of the changes arising from the remeasurement of the net liabilities and net assets of the investee's defined benefit plan.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (VI) Preparation of Combined Financial Statements (Continued)

#### 2. Procedures of Combination (Continued)

##### (2) Disposal of subsidiaries or business (Continued)

##### 2) Step disposal of subsidiary

When disposal of equity investment in subsidiaries through multiple transactions until control is lost, generally transactions in stages are treated as a group of transactions in accounting if the transaction terms, conditions, and economic impact of all transactions of disposal of the equity investments in subsidiary satisfy one or more of the following:

- A. These transactions are entered at the same time or the mutual effects on each other are considered;
- B. A complete set of commercial results can be achieved with reference to the series of transactions as a whole;
- C. Achieving a transaction depends on at least achieving of one of the other transaction;
- D. One transaction recognized separately is not economical, but it is economical when considered together with other transactions.

If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a group of transactions, these transactions shall be treated as a transaction for disposal of a subsidiary and losing control of a subsidiary. However, the differences between the amount received each time for disposal before the control is lost and the Company's share in the subsidiary's net assets corresponding to the investment disposal shall be recognized in other comprehensive income in the combined financial statements, and included in profit or loss for the period when the control is lost.

If all transactions in disposal of equity interests of subsidiaries until losing control are not considered as a group of transactions, relevant accounting policies for partial disposal of equity investments of subsidiary without losing control shall be applied before control is lost. When control is lost, general accounting treatment for disposal of a subsidiary shall be applied.

##### (3) Acquisition of minority interest of subsidiary

The Company shall adjust the share premium in the capital reserve of the combined balance sheet with respect to any difference between the long-term equity investment arising from the purchase of minority interest and the net assets attributing to the Company continuously calculated on the basis of the newly increased share proportion as of the acquisition date (or date of combination), and adjust the retained earnings in case the share premium in the capital reserve is insufficient for offsetting.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (VI) Preparation of Combined Financial Statements (Continued)

#### 2. Procedures of Combination (Continued)

##### (4) Partial disposal of equity investment in subsidiary without losing control

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing control and the share of net assets continuously calculated from the date of acquisition or combination date shall be adjusted to share premium in the capital reserve in the combined balance sheet. Adjustments shall be made to retained earnings in the event that the share premium in the capital reserve is not sufficient for offsetting.

### (VII) Classification of Joint Arrangements and Accounting Treatment Method for Joint Operations

#### 1. Classification of joint venture arrangements

The Company classifies the joint venture arrangements into joint venture and joint operation according to the structure, legal form of joint venture arrangement, the terms agreed in the arrangement, other relevant matters and situations.

Any joint venture arrangement that is not achieved by a separate entity shall be classified as a joint operation. Any joint venture arrangement that is achieved by a separate entity shall be generally classified as a joint venture. But if a joint venture arrangement is conclusively proved to meet any of the following conditions and meets the provisions of relevant laws and regulations, it shall be classified as joint operation:

- (1) its legal form shows the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.
- (2) contract terms of the joint venture arrangement stipulate that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.
- (3) other relevant facts and situations show that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint ventures enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint ventures' supports.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (VII) Classification of Joint Arrangements and Accounting Treatment Method for Joint Operations (Continued)

##### 2. Accounting treatment method for joint operation

The Company recognizes the following items related to its share of benefits in the joint operation and conducts accounting treatment in accordance with relevant ASBEs:

- (1) assets it solely holds and its share of jointly-held assets based on its percentage;
- (2) liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;
- (3) incomes from sale of output enjoyed by it from the joint operation;
- (4) incomes from sale of output from the joint operation based on its percentage;
- (5) separate costs and costs for the joint operation based on its percentage.

When the Company invests or sells assets and others in or to the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognised before such assets and others are sold by the joint operation to a third party. If the invested or sold assets are of impairment loss subject to ASBE 8 – Impairment of Assets and other provisions, the Company shall recognise such loss in full.

When the Company purchases assets and others from the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognised before such assets and others are sold to a third party. If the purchased assets are of impairment loss subject to ASBE 8 – Impairment of Assets and other provisions, the Company shall recognise its part of such loss based on its percentage.

If the Company has no common control over a joint operation enjoys and assumes relevant assets and liabilities of the joint operation, it shall conduct accounting treatment in accordance with aforesaid principle; or it shall do the same in accordance with relevant ASBEs.

#### (VIII) Determination of Cash and Cash Equivalents

In preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of the Company are recognized as cash. The short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of change in value are recognized as cash equivalents.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (IX) Foreign Currency Transactions and Translation of Foreign Currency Financial Statements

In initial recognition, foreign currency transactions shall be converted into RMB at the spot exchange rate on the day when the transactions occurred.

At the balance sheet date, monetary items denominated in foreign currency are converted using the spot exchange rate on the balance sheet date. Exchange differences shall be recorded into profit or loss for the current period, except for those arising from specific borrowings denominated in foreign currency related to the purchase of assets qualified for capitalization. Translation of non-monetary items denominated in foreign currency and measured at historical cost shall continue to be based on the spot exchange rate on the date of transaction, without changing the amount in its functional currency.

Non-monetary items in foreign currency carried at fair value are converted using the spot exchange rate prevailing on the date when such fair value was determined, and any exchange difference arising therefrom is recognized in profit or loss for the period. In case of non-monetary items in foreign currency available for sales, the exchange difference arising therefrom is included in the other comprehensive income.

### (X) Financial Instruments

A financial asset or financial liability is recognized when the Company becomes a party to a financial instrument contract.

The actual interest rate method refers to the method of calculating the amortized cost of financial assets or financial liabilities and amortizing interest income or interest expenses into each accounting period.

The actual interest rate refers to the interest rate used to discount the estimated future cash flow of a financial asset or financial liability over the expected useful life to the carrying amount of the financial asset or the amortized cost of the financial liability. When determining the actual interest rate, the expected cash flow is estimated on the basis of considering all contractual terms of financial assets or financial liabilities (such as early repayment, rollovers, call options or other similar options, etc.), but the expected credit losses are not considered.

The amortized cost of a financial asset or a financial liability is the amount of a financial asset or a financial liability initially recognized net of principal repaid, plus or less the cumulative amortized amount arising from amortization of the difference between the amount initially recognized and the amount at the maturity date using the effective interest method, net of cumulative loss allowance (only applicable to financial assets).

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 1. *Classification and measurement of financial instrument*

The Company classifies financial assets into the following 3 categories based on the business model of the financial assets under management and the contractual cash flow characteristics of financial assets:

- (1) Financial assets measured at amortized cost.
- (2) Financial assets measured at fair value through other comprehensive income.
- (3) Financial assets measured at fair value through profit or loss.

Financial assets are measured at fair value at initial recognition, but if the trade receivables or bills receivable due to the sale of goods or the provision of services do not contain a significant financing component or do not consider financing components not exceeding one year, the transaction price will be used for initial measurement.

For financial assets that are measured at fair value and whose changes are included in the current profit and loss, the related transaction costs are directly included in the current profit and loss, and other types of financial assets related transaction costs are included in the initial recognition amount.

The subsequent measurement of financial assets depends on their classification, and all affected financial assets are reclassified if and only if the Company changes the management of business model of financial assets.

#### (1) *Classified as financial assets measured at amortized cost*

The contractual provisions of the financial assets stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the outstanding principal amount, and the goal of the business model for managing the financial asset is to collect contractual cash flow, the Company classifies the financial assets as financial assets measured at amortized cost. The Company classifies financial assets measured at amortized cost including monetary funds, trade receivables, other receivables, long-term receivables and debt investment.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 1. Classification and measurement of financial instrument (Continued)

##### (1) Classified as financial assets measured at amortized cost (Continued)

The Company uses the effective interest rate method to recognize interest income for such financial assets, and then performs subsequent measurement based on amortized cost. The gains or losses arising from the impairment or termination of recognition and modification are included in the current profit and loss. Except for the following circumstances, the Company calculates and determines interest income based on the financial asset's book balance multiplied by the actual interest rate:

- (1) For financial assets purchased or originated that have suffered credit impairment, the Company has calculated and determined its interest income based on the amortized cost of the financial asset and the credit-adjusted actual interest rate since initial recognition.
- (2) For the financial assets purchased or originated without credit impairment, but become credit impaired in the subsequent period, the Company will calculate and determine the interest income based on the amortized cost of the financial asset and the actual interest rate in the subsequent period. If the financial instrument has no credit impairment due to the improvement of its credit risk in the subsequent period, the Company will use the actual interest rate multiplied by the financial asset's book balance to calculate and determine the interest income.

##### (2) Financial assets classified as measured at fair value through other comprehensive income

The contractual terms of the financial asset stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the amount of the outstanding principal, and the business model for managing the financial asset is to both target to collect the contractual cash flow and to sell such financial asset, the Company classifies the financial asset as a financial asset that is measured at fair value and its changes are included in other comprehensive income.

The Company uses the effective interest rate method to recognize interest income for such financial assets. Except for interest income, impairment losses and exchange differences recognized as current profits and losses, the remaining changes in fair value are included in other comprehensive income. When the financial asset is derecognized, the cumulative gains or losses previously included in other comprehensive income are transferred out of other comprehensive income and included in the current profit and loss.

Bills receivable and trade receivables that are measured at fair value and whose changes are included in other comprehensive income are reported as receivable financing, and other such financial assets are reported as other debt investments, including: other debt investments due within the year are reported as non-current assets due within one year, and other debt investments with original maturity within one year are reported as other current assets.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 1. Classification and measurement of financial instrument (Continued)

##### (3) *Financial assets designated to be measured at fair value through other comprehensive income*

The Company may irrevocably designate non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income on the basis of individual financial assets.

Changes in the fair value of such financial assets are included in other comprehensive income, and no impairment provision is required. When the financial asset is derecognized, the cumulative gains or losses previously included in other comprehensive income are transferred out of other comprehensive income and included in retained earnings. During the period when the Company holds the equity instrument investment, the Company's right to receive dividends has been established, and the economic benefits related to the dividends are likely to flow into the Company, and when the amount of dividends can be reliably measured, the dividend income is recognized and included in the current profit and loss. The Company presents the following investment items of such financial assets in other equity instruments.

Equity instrument investment that meets one of the following conditions is a financial asset measured at fair value through profit or loss: the purpose of obtaining the financial asset is mainly for recent sale; the initial confirmation is part of the centralized management of the identifiable financial asset instrument portfolio, and there is objective evidence that the short-term profit model actually exists in the near future; is a derivative (except for derivatives that meet the definition of a financial guarantee contract and are designated as effective hedging instruments).

##### (4) *Financial assets classified as measured at fair value through profit or loss*

Financial assets that do not meet the requirements for classification as a financial asset measured at amortized cost or measured at fair value through other comprehensive income, and are not designated as financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

The Company uses fair value for subsequent measurement of such financial assets, and the gains or losses resulting from changes in fair value and dividends and interest income related to such financial assets are included in the current profit and loss.

The Company reports such financial assets in held-for-trading financial assets and other non-current financial assets based on their liquidity.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 1. Classification and measurement of financial instrument (Continued)

##### (5) Financial assets designated to be measured at fair value through profit or loss

At initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the Company may irrevocably designate the financial assets as financial assets measured at fair value through profit or loss on the basis of individual financial assets.

If the hybrid contract includes one or more embedded derivatives and the main contract does not belong to the above financial assets, the Company may designate the whole as a financial instrument measured at fair value through profit or loss. Except in the following cases:

- (1) The embedded derivatives do not materially change the cash flow of a hybrid contract.
- (2) When it is first determined whether a similar hybrid contract needs to be split, there is little need for analysis to make it clear that the embedded derivatives it contains should not be split. If the prepayment right of the embedded loan allows the holder to repay the loan in advance with an amount close to the amortized cost, the prepayment right does not need to be split.

The Company uses fair value for subsequent measurement of such financial assets, and the gains or losses resulting from changes in fair value and dividends and interest income related to such financial assets are included in the current profit and loss.

The Company reports such financial assets in held-for-trading financial assets and other non-current financial assets based on their liquidity.

#### 2. Classification and measurement of financial liabilities

Financial instruments issued by the Company are classified into financial liabilities or equity instruments on the basis of the substance of the contractual terms and the economic nature reflected but not only its legal form, together with the definition of financial liability and equity instruments on initial recognition. Financial liabilities are classified at initial recognition as: financial liabilities measured at fair value through profit or loss, other financial liabilities, and derivatives designated as effective hedging instruments.

Financial liabilities are measured at fair value at initial recognition. For financial liabilities that are measured at fair value through profit or loss, the related transaction costs are directly included in the current profit and loss; for other types of financial liabilities, the related transaction costs are included in the initial recognition amount.

The subsequent measurement of financial liabilities depends on their classification:

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 2. Classification and measurement of financial liabilities (Continued)

##### (1) Financial liabilities measured at fair value through profit or loss

This category includes held-for-trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as measured at fair value through profit or loss.

Meeting one of the following conditions is a held-for-trading financial liability: the purpose of assuming relevant financial liabilities is mainly to sell or repurchase in the near future; it is part of a centrally managed portfolio of identifiable financial instruments, and there is objective evidence that the Company recently adopted short-term profit model; belongs to derivatives, except for derivatives designated as effective hedging instruments and derivatives that comply with financial guarantee contracts. Held-for-trading financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value. Except for hedge accounting, all changes in fair value are included in the current profit and loss.

In the initial recognition, in order to provide more relevant accounting information, the Company irrevocably designates financial liabilities that meet one of the following conditions as financial liabilities measured at fair value through profit or loss:

- (1) Can eliminate or significantly reduce accounting mismatches.
- (2) Manage and evaluate the financial liability portfolio or financial assets and financial liabilities portfolio based on fair value according to the enterprise risk management or investment strategy specified in the official written documents, and on top of this basis, report to key management personnel.

The Company uses fair value for subsequent measurement of such financial liabilities. Except for changes in fair value caused by changes in the Company's own credit risk, which are included in other comprehensive income, other changes in fair value are included in the current profit and loss. Unless including the fair value changes caused by the Company's own credit risk changes in other comprehensive income will cause or expand the accounting mismatch in profit or loss, the Company will include all fair value changes (including the amount of its own credit risk changes) in the current profit and loss.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 2. Classification and measurement of financial liabilities (Continued)

##### (2) Other financial liabilities

Except for the following items, the Company classifies financial liabilities as financial liabilities measured at amortized cost, the actual interest rate method is adopted for such financial liabilities, and subsequent measurement is made based on the amortized cost, and the gains or losses arising from derecognition or amortization are included in the current profit and loss:

- (1) Financial liabilities measured at fair value through profit or loss.
- (2) Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or continuing involvement of the transferred financial assets.
- (3) Financial guarantee contracts not classified as those specified in the two preceding items above, and loan commitment for loans to be granted at an interest rate below the market rate which is not classified as those specified in the above item 1).

Financial guarantee contract refers to a contract that requires the issuer to pay a specific amount to the contract holder who has suffered a loss when the specific debtor fails to pay the debt in accordance with the original or modified debt instrument terms. For financial guarantee contracts that are not designated as financial liabilities measured at fair value through profit or loss, after the initial recognition, they are measured according to the higher of the provisions for losses and the initially recognized amount after deducting the accumulated amortization amount during the guarantee period.

#### 3. Derecognition of financial assets and financial liabilities

##### (1) Financial assets that meet one of the following conditions shall be derecognized, that is to be written off from the accounts and the statement of financial position:

- (1) The contractual right to receive the cash flow of the financial assets is terminated.
- (2) The financial assets have been transferred, and the transfer meets the requirements regarding the derecognition of financial assets.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 3. *Derecognition of financial assets and financial liabilities (Continued)*

##### (2) *Conditions for derecognition of financial liabilities*

If the current obligation of a financial liability (or part of it) has been discharged, the financial liability (or part of the financial liability) is derecognized.

When the Company and the lender enter into an agreement to replace the original financial liabilities with new financial liabilities, and the contract terms of the new financial liabilities and the original financial liabilities are substantially different, or if a substantial change is made to the contractual terms of the original financial liability (or a part thereof), the original financial liabilities are derecognized and new financial liabilities are recognized; and the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognized in profit or loss.

If the Company repurchases part of the financial liabilities, the carrying amount of the financial liabilities as a whole is allocated based on the proportion of the fair value of the continuing recognition portion and the derecognition portion on the repurchase date. The difference between the carrying amount assigned to the derecognition portion and the consideration paid (including the transferred non-cash assets or liabilities assumed) shall be included in the current profit and loss.

#### 4. *Recognition basis and measurement method of transfer of financial assets*

In the event of transfer of a financial asset, the Company assesses the extent to which it retains the risks and rewards of ownership of financial assets and treats them in the following cases:

- (1) If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognized and the rights and obligations arising or retained in the transfer are separately recognized as assets or liabilities.
- (2) If all the risks and rewards of ownership of financial assets are retained, the financial assets will continue to be recognized.
- (3) There is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (ie, other than (1), (2)), depending on whether they retain control over financial assets, respectively, the situations are handled as follows:
  - (1) If the control over the financial assets is not retained, the financial assets are derecognised and the rights and obligations arising or retained in the transfer are separately recognized as assets or liabilities.
  - (2) If the control over the financial assets is retained, the relevant financial assets shall continue to be recognized according to the extent to which they continue to be involved in the transfer of financial assets, and related liabilities are recognized accordingly. The extent of continuing involvement in the transfer of financial assets refers to the extent to which the Company assumes the risk or reward of changes in the value of the transferred financial assets.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (X) Financial Instruments (Continued)

##### 4. Recognition basis and measurement method of transfer of financial assets (Continued)

When determining whether the transfer of financial assets satisfies the above-mentioned conditions for derecognition of financial assets, the principle of substance over form is adopted. The Company divides the transfer of financial assets into overall transfer and partial transfer of financial assets:

(1) If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following two amounts is included in the current profit and loss:

- (1) The carrying amount of the transferred financial assets on the derecognition date.
- (2) The sum of the consideration received from the transfer of the financial asset and the amount of the corresponding derecognized part in the accumulated changes in fair value previously recorded directly in other comprehensive income (the financial assets involved in the transfer are financial asset measured at fair value through other comprehensive income).

(2) If the financial assets are partially transferred and the transferred part as a whole meets the conditions for derecognition, the entire carrying amount of the financial asset transferred shall be proportionally amortised between the derecognised portion and the retained portion (in this case, the retained service assets shall be deemed to be part of the continuing recognition of the financial assets) according to their respective relative fair value on the transfer date. Then, the balance between the following two amounts will be included in the current profit and loss:

- (1) The carrying amount of the derecognition part on the derecognition date.
- (2) The sum of the consideration received from the derecognized part and the amount corresponding to the derecognized part in the accumulated amount of the fair value change that is previously included in other comprehensive income (the financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income).

If the transfer of financial assets does not meet the conditions for derecognition, the financial assets continue to be recognized and the consideration received is recognized as a financial liability.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 5. *Determination of the fair value of financial assets and financial liabilities*

When the financial assets or financial liabilities are in an active market, the quoted prices in active markets are used to determine their fair values, unless such financial assets have a restricted period. For financial assets which have restricted period, their fair values are determined by the quoted prices in active markets less the compensation amount requested by market players for assuming the risk of not able to sell such financial assets in the public market during the designated period. Quoted prices in active markets include those related assets or liabilities which can be easy and regular to get from the exchange, traders, brokers, industry groups, pricing mechanism or regulatory agencies and can represent the actual and often occur in even bargain basis market transactions.

For financial assets initially obtained or derived or financial liabilities assumed, fair value is determined based on market transaction prices.

For financial assets and financial liabilities that no actively traded market exists, their fair values are determined using valuation techniques. During valuation, the Company adopts valuation techniques that are available in the current circumstances and are supported by enough available data and other information, and choose input value with same features used by market players for transactions of relevant assets or liabilities, and managed to preferentially use relevant observable input value. Under the circumstance that is unable to obtain observable input value or it is infeasible, unobservable input value will be used.

#### 6. *Impairment of financial instruments*

Based on the expected credit losses, the Company conducts impairment accounting treatment and recognizes loss provisions for financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial guaranteed contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Company at the original actual interest rate (i.e. the present value of all cash shortfalls). Among them, the financial assets purchased or originated by the Company that have suffered credit impairment should be discounted at the credit-adjusted actual interest rate of the financial asset.

For the receivables formed by the transactions regulated by the income standards, the Company uses a simplified measurement method to measure the loss provision based on the amount equivalent to the expected credit loss throughout the entire period.

For financial assets purchased or originated that have suffered credit impairment, on the balance sheet date, only the cumulative changes in expected credit losses throughout the useful life since initial recognition are recognized as loss provisions. On each balance sheet date, the amount of change in expected credit losses throughout the useful life is included in the current profit and loss as an impairment loss or gain. Even if the expected credit loss throughout the useful life determined on the balance sheet date is less than the amount of expected credit loss reflected in the estimated cash flow at initial recognition, the favorable change in expected credit loss is recognized as an impairment gain.



## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (X) Financial Instruments (Continued)

##### 6. *Impairment of financial instruments (Continued)*

In addition to the above-mentioned simplified measurement methods and other financial assets purchased or originated that suffered from credit impairment, on each balance sheet date, the Company assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition, and measure their loss provisions and recognize expected credit losses and their changes according to the following circumstances:

- (1) If the credit risk of the financial instrument has not increased significantly since the initial recognition, it is in the first stage, the loss provision is measured at the amount equivalent to the expected credit loss of the financial instrument in the next 12 months, and the interest income is calculated according to the book balance and the actual interest rate.
- (2) If the credit risk of the financial instrument has increased significantly since the initial recognition, however, if credit impairment has not occurred, it is in the second stage, the loss provision is measured at the amount equivalent to the expected credit loss throughout the useful time of the financial instrument, and the interest income is calculated according to the book balance and the actual interest rate.
- (3) If the financial instrument has suffered credit impairment since its initial recognition, it is in the third stage. The Company measures its loss provisions at an amount equivalent to the expected credit loss throughout the useful life of the financial instrument, and the interest income is calculated at amortized cost and actual interest rate.

The increase or reversal of the credit loss provision for financial instruments is included in the current profit and loss as an impairment loss or gain. Except for financial assets that are classified as measured at fair value through other comprehensive income, credit losses are provided to offset the book balance of financial assets. For financial assets classified as measured at fair value through other comprehensive income, the Company recognizes its credit loss provisions in other comprehensive income and does not reduce the carrying amount of the financial asset listed in the balance sheet.

In the previous accounting period, the Company has measured the loss provisions according to the amount of expected credit losses throughout the useful life of the financial instrument, but on the balance sheet date of the current period, for the financial instrument no longer has a significant increase in credit risk since initial recognition, the Company measures the loss provisions of the financial instrument at the current balance sheet date according to the amount of expected credit losses in the next 12 months, and the resulting reversal amount of the loss provisions is included in the current profit and loss as an impairment gain.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (X) Financial Instruments (Continued)

##### 6. Impairment of financial instruments (Continued)

###### (1) Credit risk increased significantly

The Company uses the available, reasonable and evidence-based forward-looking information to compare the default risk of the financial instruments on the balance sheet date and the default risk of the financial instruments on the initial recognition date to determine whether the credit risk of the financial instrument has significantly increased since initial recognition. For financial guarantee contracts, when the Company applies provisions of impairment of financial instrument, the day when the Company becomes the party making the irrevocable commitment is used as the initial recognition date.

The Company will consider the following factors when assessing whether the credit risk has increased significantly:

- (1) Whether the actual or expected operating results of the debtor have changed significantly;
- (2) Whether the debtor's regulatory, economic or technological environment has undergone significant adverse changes;
- (3) Whether there has been a significant change in the value of the collateral used as debt collateral or the guarantee provided by a third party or the quality of credit enhancement, and these changes are expected to reduce the economic motivation of the debtor to repay the loan within the time limit specified in the contract or affect the probability of default;
- (4) Whether the debtor's expected performance and repayment behaviour have changed significantly;
- (5) Whether the Company's credit management methods for financial instruments have changed, etc.

On the balance sheet date, if the Company determines that a financial instrument has a relatively low credit risk, the Company assumes that the credit risk of the financial instrument has not increased significantly since initial recognition. If the default risk of the financial instruments is low, the borrower has a strong ability to fulfil its contractual cash flow obligations in the short term, and even if there are adverse changes in the economic situation and operating environment in a longer period of time, it may not necessarily reduce the borrower's ability to fulfil the contractual cash flow obligation, the financial instrument is considered to have lower credit risk.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 6. Impairment of financial instruments (Continued)

##### (2) Financial assets with credit impairment

When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a financial asset that has suffered a credit impairment. Evidence that credit losses have occurred in financial assets includes the following observable information:

- (1) significant financial difficulty of the issuer or debtor;
- (2) breach of contract by the debtor: such as delinquency or default in interest and principal payments;
- (3) the creditor(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the creditor(s) would not otherwise consider;
- (4) it is probable that the debtor will enter bankruptcy or financial reorganization;
- (5) the disappearance of active markets for that financial asset because of financial difficulties of the issuer or debtor;
- (6) a substantial discount during acquisition or sourcing of a financial asset reflects the fact the occurrence of credit losses.

The credit impairment of financial assets may be caused by the joint impacts of multiple events, which may not be necessarily caused by separate identifiable events.

##### (3) Determination of expected credit losses

The Company assesses the expected credit losses based on an individual and a collective basis. The Company considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions when assessing the expected credit losses.

The Company divides financial instruments into different portfolio based on common credit risk characteristics. The common credit risk characteristics adopted by the Company include: types of financial instruments, credit risk ratings, aging portfolios, overdue aging portfolios, contract settlement cycles, and the debtor's industry. For the individual evaluation criteria of the related financial instruments and the characteristics of the credit risk of portfolio, please refer to the accounting policies of the relevant financial instruments.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 6. Impairment of financial instruments (Continued)

##### (3) Determination of expected credit losses (Continued)

The Company determines the expected credit losses of relevant financial instruments according to the following methods:

- (1) For financial assets, the credit loss is the present value of the difference between the contractual cash flow that the Company should receive and the expected cash flow.
- (2) For a financial guarantee contract, the credit loss is the present value of the difference between the estimated payment to the contract holder by the Company for the credit loss less the expected amount received by the Company from the contract holder, debtor or any other party.
- (3) For a financial asset that is credit-impaired at the balance sheet date, but that is not a purchased or originated credit-impaired financial asset, the credit loss is the present value of the difference between the financial asset's book balance and the estimated future cash flow discounted at the original effective interest rate.

The Company's method of measuring the expected credit loss of financial instruments reflects the following factors: the unbiased probability weighted average amount determined by evaluating a series of possible results; the time value of currency; the availability of reasonable and evidence-based information on the balance sheet date about past events, current conditions, and future economic conditions without spending unnecessary additional costs or efforts.

##### (4) Written-off of financial assets

When the Company no longer reasonably expects that the contractual cash flow of financial assets can be fully or partially recovered, the carrying amount of the financial asset is directly written off. Such write-off constitutes the derecognition of related financial assets.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (X) Financial Instruments (Continued)

#### 7. *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are presented in the balance sheet respectively and are not offset with each other. However, the net value after the offset is presented in the balance sheet when the following conditions are satisfied:

- (1) The Company has the legal right to offset the recognized amount and such right is exercisable;
- (2) The Company plans to settle by net amount or realize the financial assets and repay the financial liabilities at the same time.

### (XI) Bills Receivable

For details of the Company's determination method and accounting treatment of the expected credit loss of bills receivable, please refer to Note IV(X) – 6. Impairment of financial instruments.

When it is impossible to evaluate the sufficient evidence of expected credit loss at a reasonable cost at the individual instrument level, the Company refers to the historical credit loss experience combined with current situation and the judgment of the future economic situation, and divides the bills receivable into several portfolios based on the characteristics of credit risk and calculate expected credit losses on a portfolio basis. The basis for determining the portfolio is as follows:

Portfolio name	Basis for determining the portfolio	Provision method
No risk bank acceptance bills portfolio	The acceptor has a relative high credit rating, has not historically defaulted on a bill, has a very low credit loss risk, and has a strong ability to perform its contractual cash flow obligations in the short term	Make reference to historical credit loss experience, combine with current and expected economic situation to measure the expected credit loss
Commercial acceptance bills	The acceptor is a company that has a certain risk of credit impairment	Ageing analysis

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XII) Trade Receivables

For details of the determination method and accounting treatment of the expected credit loss of the Company's trade receivables, please refer to Note IV(X) – 6. Impairment of financial instruments.

The Company separately determines the credit loss of single trade receivable with significant amount and suffered credit impairment after the initial recognition.

When it is impossible to assess the sufficient evidence of expected credit loss at a reasonable cost at the level of a single tool, the Company refers to historical credit loss experience, combines the current situation and the judgment of the future economic situation, and divides the trade receivables into several portfolios based on the characteristics of credit risk, and calculate expected credit losses on a combined basis. The basis for determining the portfolio is as follows:

Portfolio name	Basis for determining the portfolio	Provision method
Ageing analysis portfolio	Trade receivables other than "related party portfolio"	The Company make reference to historical credit loss experience, combine with current and expected economic situation by using default risk exposure and a lifetime credit loss rate to measure the expected credit loss.
Related party portfolio	Trade receivables from Shareholders and related parties	Make reference to historical credit loss experience, combine with current and expected economic situation to measure the expected credit loss

#### (XIII) Trade Receivables Financing

For details of the determination method and accounting treatment of the expected credit losses of the Company's trade receivables financing, please refer to Note IV(X) – 6. Impairment of financial instruments.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XIV) Other Receivables

For details of the determination method and accounting treatment of the expected credit losses of other receivables of the Company, please refer to Note IV(X) – 6. Impairment of financial instruments.

The Company separately determines the credit loss of single receivables with significant amount and suffered credit impairment after the initial recognition.

When it is impossible to assess the sufficient evidence of expected credit loss at a reasonable cost at the level of a single tool, the Company refers to historical credit loss experience, combines the current situation and the judgment of the future economic situation, and divides the receivables into several portfolios based on the characteristics of credit risk, and calculate expected credit losses on a combined basis. The basis for determining the portfolio is as follows:

Portfolio name	Basis for determining the portfolio	Provision method
Low risk portfolio	Recovery of other receivables with lower risk, including deposits and retention monies, individual income tax receivables and VAT refund receivables, etc.	Make reference to historical credit loss experience, combine with current and expected economic situation to measure the provision for expected credit loss
Related party portfolio	Other receivables from Shareholders and related parties	Make reference to historical credit loss experience, combine with current and expected economic situation to measure the provision for expected credit loss
Other receivables	Other receivables other than the abovementioned portfolio	The Company make reference to historical credit loss experience, combine with current and expected economic situation by using default risk exposure and a 12-month or lifetime credit loss rate to measure the expected credit loss.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XV) Inventories

#### 1. *Classification of inventories*

Inventories refer to the completed products or merchandize, semi-finished products under production process, and materials and items consumed during production or provision of labor services which are held for sale by the Company over the course of ordinary activities. These mainly include raw materials, turnover materials and inventories.

#### 2. *Valuation of inventories*

Inventories are initially measured at cost upon acquisition, which includes procurement costs, processing costs and other costs. The value of inventories is calculated on first-in-first-out basis when they are delivered.

#### 3. *Determination criteria for the net realizable value of inventories and provision for inventory impairment*

When a comprehensive count of inventories is done at the end of the period, provision for inventory impairment is allocated or adjusted using the lower of the cost of inventory and the net realizable value. The net realizable value of stock in inventory (including finished products, inventory merchandize and materials for sale) that can be sold directly is determined using the estimated saleable price of such inventory deducted by the cost of sales and relevant taxation over the course of ordinary production and operation. The net realizable value of material in inventory that requires processing is determined using the estimated saleable price of the finished product deducted by the cost to completion, estimated cost of sales and relevant taxation over the course of ordinary production and operation. The net realizable value of inventory held for performance of sales contract or labor service contract is determined based on the contractual price; in case the amount of inventory held exceeds the contractual amount, the net realizable value of the excess portion of inventory is calculated using the normal saleable price.

Provision for impairment is made according to individual items of inventories at the end of the period; however, for inventories with large quantity and low unit price, the provision is made by categories; inventories of products that are produced and sold in the same region or with the same or similar purpose or usage and are difficult to be measured separately are combined for provision for impairment.

If the factors causing a previous write-off of inventory value has disappeared, the amount written-off is reversed and the amount provided for inventory impairment is reversed and recognized in profit or loss for the period.

#### 4. *Inventory system*

The Company's perpetual inventory system adopts an amortization method of low-value consumables and packaging materials.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XVI) Contract Assets

Contract Asset refers to the Company's right to receive consideration for the goods transferred to the customer and which is determined depending on other factors beyond the passage of time. The Company's unconditional (ie, depends only on the passage of time) right to collect consideration from customers is listed separately as receivables.

For details of the determination method and accounting treatment of the expected credit losses of the contract assets of the Company, please refer to Note IV(X) – 6. Impairment of financial instruments.

### (XVII) Classified as Held-for-sale

#### 1. *Criteria for determining as held for sale*

The Company recognizes the non-current assets or disposal groups that meet the following conditions as held for sale:

- (1) the assets or disposal groups can be sold immediately in its present condition based on the convention of similar transactions where such assets or disposal groups are sold;
- (2) It is highly probable that a sale will occur, i.e. the Company has resolved on a plan of sale and has obtained a firm purchase commitment and the sale is expected to be completed within one year.

A firm purchase commitment is a legally-binding purchase agreement between the Company and another party that contains material terms such as the price of the transaction, timing and sufficiently severe penalties for breach of contract to make material adjustments to the agreement or it is highly unlikely to revoke.

#### 2. *Accounting methods for determining as held for sale*

For non-current assets or disposal groups held for sale, the Company does not measure the depreciation or amortization of such assets. If the carrying amount of a non-current asset or disposal group held for sale is higher than the net fair value less sale costs, the carrying amount should be written down to the net fair value less sale costs. The amount written down should be recognized as an impairment loss of asset and charged to profit or loss for the period, together with a provision for impairment of assets held for sale.

Non-current assets or disposal groups that are classified as held for sale at the date of acquisition are initially measured at the lower of the initial measurement amount that would have been determined had they not been classified as held for sale and the fair value less sale costs.

The above principles apply to all non-current assets, except for investment properties that are subsequently measured using the fair value model, biological assets that are measured using net fair value less sale costs, assets arising from employees' compensation, deferred income tax assets, financial assets governed by accounting standards related to financial instruments and rights arising from insurance contracts governed by accounting standards related to insurance contracts.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XVIII) Other Debt Investment

For details of the determination and accounting treatment of expected credit losses of other debt investment of the Company, please refer to Note IV(X) – 6. Impairment of financial instruments.

#### (XIX) Long-term Equity Investments

##### 1. Initial determination of investment costs

- (1) For long-term equity investment formed by business combination, details of the specific accounting policies are set out in Note IV(V) Accounting Treatments of Business Combinations Involving Entities under Common Control and Entities not under Common Control.
- (2) Long-term equity investments obtained through other means

Initial investment costs of long-term equity investment obtained through cash payment is determined by the actual consideration paid. The initial investment cost consists of the expenses directly related to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Initial investment costs of long-term equity investment obtained through issuance of equity securities is determined by the fair value of the equity securities issued; trading expenses incurred during insurance or acquisition of equity instrument may be directly deducted from the equity attributable to the equity trade.

The initial investment costs of long-term equity investment obtained in an exchange of non-monetary assets is determined using the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; the initial investment costs of a long-term equity investment in a nonmonetary asset exchange that cannot satisfy the above conditions is determined by the carrying amount of the asset surrendered and the amount of relevant tax payable.

The initial investment costs of a long-term equity investment obtained through debt restructuring is determined based on the fair value.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XIX) Long-term Equity Investments (Continued)

#### 2. *Subsequent measurement and profit or loss recognition*

##### (1) *Cost method*

The Company may adopt the cost method for accounting of the controlling long-term equity investment in the investee, and measure the investment at the initial investment cost, which can be adjusted by addition or recovery of investment.

Except for the price actually paid for obtaining the investment or the cash dividends or profits declared but not yet distributed which is included in the consideration, the Company recognizes cash dividends or profits declared by the investee as current investment gains.

##### (2) *Equity method*

The Company adopts the equity method for accounting of long-term equity investment in joint ventures and associates; where part of the equity investment of the investing party is indirectly held by venture capital institutions, mutual funds, trust companies or similar subjects including unit-linked insurance fund, the investment is measured at fair value, the changes in which are included in the profit and loss.

When the initial investment cost of the long-term equity investment exceeds the share of fair value in the identifiable net assets in the investee, the initial investment cost of a long-term equity investment is not adjusted based on such difference. When the initial investment cost is lower than the share of fair value in the identifiable net assets in the investee, such difference is recognized in profit or loss for the period.

After the Company acquires a long-term equity investment, it shall, in accordance with its attributable share of the net profit or loss and other comprehensive income realized by the investee, recognize the investment income and other comprehensive income respectively and simultaneously adjust the carrying amount of the long-term equity investment. The Company shall, in light of the profits or cash dividends that the invested entity declares to distribute, reduce the carrying amount of the long-term equity investment correspondingly. As to any change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution, the Company shall adjust the carrying amount of the long-term equity investment and include such change into the owners' equity.

The Company shall, based on the fair value of identifiable net assets of the invested entity when it obtains the investment, recognize its attributable share of the net profit or loss of the investee after it adjusts the net profit of the investee. The profit or loss of the unrealized internal transaction between the Company and the associates, joint ventures shall be offset with the portion attributable to the Company according to the proportion the Company is entitled to, and the gains or losses on investment shall be recognized on such basis.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XIX) Long-term Equity Investments (Continued)

#### 2. *Subsequent measurement and profit or loss recognition (Continued)*

##### (2) *Equity method (Continued)*

Recognition of loss in the investee by the Company shall follow this order: firstly, reduce the carrying amount of the long-term equity investments; secondly, if the carrying amount of long-term equity investments is insufficient for such reduction, continue to recognize such investment loss to the extent of the carrying amount of the long-term equity which substantively constitutes the net investment in the investee. Finally, after the above treatment, if the Company still bears additional obligations stipulated under the investment contract or agreement, the estimated obligations assumed are recognized as estimated obligations and recognized in profit or loss for the period.

If the investee records a profit subsequently, after deducting the attributable loss that is not yet recognized, the treatment by the Company shall be the reverse of the above order: reverse the carrying balance of estimated obligations already recognized, restore the carrying amount which substantively constitutes the long-term interests and long-term equity investment in the investee, and recognize investment gain.

#### 3. *Change of the accounting methods for long-term equity investments*

##### (1) *Change of measurement at fair value to accounting under equity method*

Where the equity investment held by the Company have no control, common control or significant impact on the investee and that are accounted according to the financial instrument recognition and measurement criteria can place significant impact or carry out common control but cannot control the investee due to addition of investment, the sum of the fair value of the equity investment originally held determined subject to ASBE 22 - Recognition and Measurement of Financial Instruments and the new investment cost are determined to be the initial investment cost accounted under equity method.

Where the equity investment originally held is classified into available-for-sale financial assets, the difference between the fair value and the carrying amount and the accumulative changes in fair value that are originally included in other comprehensive income are transferred to current profit and losses under equity method.

The carrying amount of the long-term equity investment is adjusted by the difference between the fair value shares of the identifiable net assets of the investee on the date of additional investment determined by calculation of the new shareholding proportion after such additional investment and the initial investment cost under equity method, and is included in current non-operating income.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XIX) Long-term Equity Investments (Continued)

#### 3. *Change of the accounting methods for long-term equity investments (Continued)*

##### (2) *Change of measurement at fair value or accounting under equity method to cost method*

The equity investment of the investee held by the Company with no control, common control or significant impact and accounted according to the financial instrument recognition and measurement criteria, or the long-term equity investment in associates or joint venture originally held that can be controlled due to addition of investment, the sum of the carrying amount of the original equity investment and the cost of new investment is changed to be accounted under cost method and recognized as the initial investment cost when preparing individual financial statements.

The other comprehensive income recognized due to the adoption of equity method for the equity investment held before the date of acquisition shall be accounted on the same basis for the disposal of relevant assets or liabilities of the investee during the disposal of such investment.

Equity investment held before the date of acquisition shall be subject to the relevant requirements under ASBE 22 – Recognition and Measurement of Financial Instruments and the accumulated fair value changes that were originally included in other comprehensive income shall be included in profit or loss for the period under cost method.

##### (3) *Change of accounting under equity method to measurement at fair value*

Where the Company loses common control or significant impact over the investee due to disposal of part of the equity investment, the remaining equity after disposal shall be subject to accounting under ASBE 22 – Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the common control or significant impact is lost and the carrying amount is included in profit or loss for the period.

Other comprehensive income that is recognized due to adoption of the equity method shall be subject to accounting on the same basis for disposal of relevant assets or liabilities of the investee at the time when the equity method is ceased.

##### (4) *Change of cost method to equity method*

Where the Company loses the control over the investee due to disposal of part of the equity investment, and the remaining equity after disposal can place common control or significant impact over investee, it should be changed to equity method in preparing individual financial statements and the remaining equity shall be adjusted as if the equity method is adopted at the acquisition.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XIX) Long-term Equity Investments (Continued)

#### 3. *Change of the accounting methods for long-term equity investments (Continued)*

##### (5) *Change of cost method into measurement at fair value*

Where the Company loses the control over the investee due to disposal of part of the equity investment, and the remaining equity after disposal cannot place common control or significant impact over investee, the accounting should be changed and become subject to relevant requirements under ASBE 22 – Recognition and Measurement of Financial Instruments in preparing individual financial statements, and the difference between the fair value on the date when the control is lost and the carrying amount is included in current profit and loss.

#### 4. *Disposal of long-term equity investment*

When disposing long-term equity investment, the difference between its carrying amount and the payment actually acquired shall be included in the profit or loss for the period. When disposing long-term equity investment measured by employing the equity method, accounting treatment of the portion previously included in other comprehensive income shall be made on the same basis as would be required if the invested entity had directly disposed the assets or liabilities related thereto according to the corresponding proportion.

If the terms, conditions and economic effects of transactions in relation to the disposal of equity investments in subsidiaries fall in the following one or more situations, multiple transactions are regarded as a group of transactions for accounting treatment:

- (1) these transactions were entered into at the same time or after considering the effects of each other;
- (2) only when regarding these transactions as a whole, can it achieve a complete business result;
- (3) the occurrence of one transaction depends on the occurrence of at least one other transaction;
- (4) a transaction is not economical when treated alone, but is economical when considered together with other transactions.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XIX) Long-term Equity Investments (Continued)

##### 4. Disposal of long-term equity investment (Continued)

When an entity loses control on its original subsidiary due to partial disposal of equity investment or otherwise, it does not belong to a group of transactions, and the accounting treatment shall be differentiated by separate financial statements and combined financial statements:

- (1) In separate financial statements, for equity disposed, the difference between the carrying amount and the actual payment is included in profit or loss for the period. Where the remaining equity after disposal can implement common control or place significant impact over the investee, the equity method is adopted for accounting treatment, and the remaining equity is adjusted as if the equity method is adopted at the time of acquisition; where the remaining equity after disposal cannot implement common control or place significant impact over the investee, relevant provisions of ASBE 22 – Recognition and Measurement of Financial Instruments shall be adopted for accounting, and the difference between the fair value on the date when the control is lost and the carrying amount is included in profit or loss for the period.
- (2) In combined financial statements, for the transactions before the loss of control over subsidiaries, the capital reserve (share premium) is adjusted by the difference between the price of disposal and the net asset shares of subsidiaries continuously calculated since the date of acquisition or combination corresponding to the long-term equity investment; where the capital reserve is insufficient, retained earnings are adjusted; at the time of loss of control over subsidiaries, the remaining equity are re-measured according to the fair value at the date of loss of control. The difference between the sum of the price acquired for disposal of equity and the fair value of the remaining equity less shares of net assets constantly calculated since the date of acquisition based on the original shareholding proportion is included in the investment income in the period when the control is lost and is written down to good will. Relevant other comprehensive income related to original equity investment in the subsidiaries is transferred to current investment income at the time of loss of control.

Transactions in relation to the disposal of equity investments in subsidiaries until control is lost belong to a group of transactions, and the accounting treatment shall be differentiated by separate financial statements and combined financial statements:

- (1) In separate financial statements, the difference between the carrying amount of the long term equity investment corresponding to disposal price and equity disposed before the loss of control is recognized as other comprehensive income; and transferred as a whole to profit or loss for the period at the time of loss of control.
- (2) In combined financial statements, the difference between the accumulated disposal considerations before control is lost and the share of net assets in the subsidiary is recognized as other comprehensive income, and shall be transferred as a whole to profit or loss for the period when control was lost.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XIX) Long-term Equity Investments (Continued)

##### 5. *Criteria for determination of common control and significant impact*

If the Company collectively control certain arrangement with the other participants as agreed, and the decisions on the activities that may have significant impact on the return of arrangement are subject to consistent agreement from participants sharing the control power, then the Company and the other participants are deemed to have common control over certain arrangement, which is joint venture arrangement.

Where the joint venture arrangement is realized through individual entity, it is judged according to relevant agreement that, when the Company is entitled to the rights over the net assets of such entity, the entity is a joint venture and adopts equity method for accounting treatment. If it is judged according to relevant agreement that, the Company has no rights over the net assets of such entity, such entity is joint operation, and the Company recognize the items in relation to the shares in the joint operation and adopts provisions of relevant ASBEs for accounting treatment.

Significant impact refers to the power of an investing party to participate in making decisions on the financial and operating policies of an invested entity, but not to control or jointly control together with other parties over the formulation of these policies. The Company determines, the significant impact is placed on investee in one or more situations as follows after a comprehensive consideration of all facts and situations: (1) dispatching representatives in the board of directors or similar power organ of the investee; (2) participating in the formulation of the financial and operation policies of the investee; (3) having significant deals with the investee; (4) dispatching management personnel to the investee; and (5) providing key technical information to investee.

#### (XX) Investment Property

Investment property refers to property held to earn rentals or capital appreciation, or both, including land-use rights that have been leased, land-use rights that are held and prepared for transfer after appreciation, and buildings that have been leased. In addition, for the vacant buildings that the Company holds for operating leases, if the board of directors makes a written decision explicitly states that it is used for operating leases and that the holdings will not change in the short term, they are also presented as investment property.

The Company's investment property is recorded at its cost, and the cost of an purchased investment property includes the purchase price, related taxes, and other expenses directly attributable to the asset; the cost of self-constructed investment property includes all necessary expenditures incurred during the construction before the asset reaches its intended usable condition.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XX) Investment Property (Continued)

The Company adopts the cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights according to their estimated service life and net residual rate. Estimated service life, net residual rate and annual depreciation (amortization) rate of investment property are presented below:

Type	Estimated service life (year)	Estimated net residual rate (%)	Annual depreciation (amortization) rate (%)
Buildings	30	4	3.2

When the use of an investment property is changed to self-occupied, the Company transfers the investment property to a fixed asset or intangible asset since the date of the change. When the use of real estate for self-occupied changes to earning rental income or capital appreciation, the Company transfers the fixed assets or intangible assets to investment property since the date of the change. When the transferal occurs, the carrying amount before the transferal is used as the booked value after the transferal.

When the investment property is disposed of or is permanently withdrawn from use and it is expected that no economic benefit can be obtained from its disposal, the recognition of the investment property shall be terminated. The amount of proceeds from disposal of investment property sold, transferred, scrapped or damaged after deducting its carrying amount and related taxes and fees is charged to profit or loss for the current period.

### (XXI) Fixed Assets

#### 1. Recognition of fixed assets

Fixed assets refer to tangible assets held for the production of merchandize, provision of labor services, renting or operational management with useful life over one accounting year. Fixed assets are recognized when all of the following conditions are met:

- (1) economic benefits related to such fixed assets are likely to flow into the enterprise;
- (2) costs of such fixed assets can be reliably measured.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXI) Fixed Assets (Continued)

#### 2. *Initial measurement of fixed assets*

The fixed assets of the Company are initially measured at cost.

- (1) The cost of the externally purchased fixed assets include the purchase price, the import duties, and the other expenditure direct attributable to such assets for such assets to be available for its intended use.
- (2) The cost of a self-constructed fixed asset consists of all necessary expenses incurred from the construction for enabling the asset to be available for its intended use.
- (3) The cost invested to a fixed asset by the investor is determined according to the value agreed upon in the investment contract or agreement. Where the valued agreed upon in the said investment contract or agreement is unfair, the said cost will be determined according to the fair value of the asset.
- (4) Where the price for purchase of the fixed assets exceeds the deferred payment on normal credit terms with substantial financing nature, the cost is determined on the basis of the present value of the purchase price. The difference between the actual payment and the purchase price, besides being capitalized, shall be included in profit or loss for the period during the credit period.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXI) Fixed Assets (Continued)

#### 3. Subsequent measurement and disposal of fixed assets

##### (1) Depreciation of fixed assets

The depreciation of fixed assets is provided within the estimated useful life based on the value carried less the expected net residue. For fixed assets with impairment provided, the depreciation can be determined based on the carrying amount less the provision for impairment in future period and the remaining useful life. No depreciation is provided for still in use but fully depreciated assets.

The Company determines the useful life and estimated residual value of fixed assets based on their nature and use condition. The useful life, estimated residual value and method of depreciation of fixed assets are re-assessed at the end of the year, corresponding adjustment is made when any difference from the originally estimated amount is found.

The method of depreciation, year of depreciation and annual depreciation rate of different categories of fixed assets are as follows:

Category	Method of depreciation	Year of depreciation (year)	Residual rate (%)	Annual depreciation rate (%)
Property and buildings	Straight-line basis	30	4.00	3.20
Machinery and equipment	Straight-line basis	2-16	4.00	6.00-48.00
Electronic equipment	Straight-line basis	5	4.00-5.00	19.00-19.20
Transportation equipment	Straight-line basis	6-10	4.00-5.00	9.60-16.00
Office equipment	Straight-line basis	5	4.00	19.20
Network equipment	Straight-line basis	16	4.00	6.00

##### (2) Subsequent expenses of fixed assets

For subsequent expenses in relation to fixed assets, those that comply with the recognition criteria for fixed assets are included in the costs of fixed assets; those that do not are included in profit or loss for the period at the time of incurrence.

##### (3) Disposal of fixed assets

A fixed asset is derecognized when the fixed asset is disposed or the expected use or disposal of such fixed asset cannot create any economic benefits. The disposal income from sale, transfer, retirement or damage of fixed assets is recognized in profit or loss for the period after deducting its carrying amount and relevant taxes.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XXI) Fixed Assets (Continued)

##### 4. *Determination basis, measurement and depreciation method of fixed assets under finance leases*

The fixed asset leased by the Company will be recognized as fixed asset acquired under finance leases when it complies with one or more of the following standards:

- (1) The ownership of the leased asset will be transferred to the Company upon expiry of the lease term.
- (2) The Company has the option to acquire the leased asset, and the acquisition consideration is expected to be much lower than the fair value of the leased asset at the time when the right of option is exercised. Therefore, it can be reasonably confirmed from the commencement date of the lease term that Company will exercise the right of option.
- (3) Even if the ownership of the leased asset will not be transferred, the lease term accounts for the most of useful life of the leased asset.
- (4) The present value of the minimum lease payment made by the Company at the commencement date of the lease almost equals to the fair value of the leased asset at the commencement date of the lease.
- (5) The leased asset is of a specialized nature that only the Company can use it without making major modifications.

The booked value of the leased asset acquired under finance leases is recorded as the lower of the fair value of the leased asset and the present value of the minimum lease payment at the commencement date of the lease. The minimum lease payment is recognized as long-term payable, and the difference between them is recognized as unrecognized finance charge. Initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement, such as handling fees, attorney fees, traveling expenses and stamp duty, are also credited to the value of the leased asset. Unrecognized finance charge is amortized using effective interest method over the lease term.

For fixed assets acquired under finance leases, the basis for provision of leased assets depreciation is the same as that of self-owned fixed assets. When it can be reasonably determined that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XXII) Constructions in Progress

##### 1. *Initial measurement of construction in progress*

The self-constructed constructions in progress of the Company are measured at actual cost, which consist of the necessary expenses required for bringing such constructions to the expected useable conditions including the cost of construction materials, labor costs, relevant taxes, borrowings expenses capitalized and apportioned indirect costs.

##### 2. *Criteria and timing for conversion of construction in progress into fixed assets*

The initial carrying amounts of the fixed assets are stated at total expenditures incurred before construction in progress reaching the working condition for their intended use. For construction in progress that has reached working conditions for its intended use but for which the completion of settlement has not been handled, it shall be transferred into fixed assets at the estimated value according to the project budget, construction price or actual cost, etc. from the date when it reaches the working conditions for its intended use. And the fixed assets shall be depreciated in accordance with the Company's policy on fixed asset depreciation. Adjustment shall be made to the originally and provisionally estimated value based on the actual cost after the completion of settlement is handled, but depreciation already provided will not be adjusted.

#### (XXIII) Borrowing Expenses

##### 1. *Principles of recognizing capitalization of borrowing expenses*

The borrowing expenses of the Company directly attributable to the construction or production of an asset meeting capitalization conditions are capitalized and recognized in relevant asset costs; other borrowing expenses are recognized as expenses based on the amount incurred and recognized in profit or loss for the period.

An asset that meets the capitalization conditions refers to fixed assets, real estate investments and inventories that require a considerable amount of time for construction or production to reach the expected usable or saleable condition.

Borrowing expenses are capitalized when all of the following conditions are met:

- (1) the asset expense has occurred, which includes expenses in the form of cash paid, nonmonetary asset transferred or interest-bearing obligations assumed for the construction or production of an asset that meets capitalization conditions;
- (2) the borrowing expenses have occurred;
- (3) the necessary construction or production activities for bringing the asset to the expected usable or saleable conditions have started.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXIII) Borrowing Expenses (Continued)

#### 2. Capitalization period of borrowing expenses

Capitalization period refers to the time starting from the borrowing expenses are capitalized to the time capitalization is stopped, except for the period which capitalization of borrowing expenses is suspended.

When the construction or production of an asset meeting capitalization conditions has reached expected useful or saleable conditions, the capitalization of borrowing expenses is stopped.

When a portion of the construction or production of an asset meeting capitalization conditions has completed and can be used individually, the capitalization of borrowing expenses of such portion of asset is stopped.

When portions of the construction or production of an asset have been completed but will only become useful or saleable after the entire asset is completed, the capitalization of borrowing expenses is stopped when the entire asset is completed.

#### 3. Suspension of capitalization period

Capitalization of borrowing expenses is suspended when any abnormal interruption continues for over three months during the construction or production of an asset that meets capitalization conditions. If such interruption is a necessary procedure for the construction or production of the asset that meets capitalization conditions for which to reach expected useful or saleable conditions, the borrowing expenses are continued to be capitalized. The borrowing expenses incurred during the interruption are recognized as profit or loss for the period, and capitalization of borrowing expenses continues when the construction or production activities of the asset resumes.

#### 4. Calculation of capitalized amount of borrowing expenses

Interest expenses of special loans (net of interest income from unutilized loans deposited in bank or investment gain earned from temporary investment) and supplementary expenses incurred for the construction or production of asset that meets capitalization conditions before the asset reaches expected useable or saleable condition are capitalized.

The interest amount that should be capitalized on normal borrowings is calculated based on the weighted average of expenses of the aggregate asset exceeding the expenses of the portion of special loan multiplied by the capitalization ratio of the normal borrowings utilized. Capitalization ratio is calculated based on normal weighted average interest rate.

When there is discount or premium in the loan, the discount or premium to be amortized in each accounting period is determined using effective interest method and the interest amount for each period is adjusted.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXIV) Intangible Assets and Development Expenses

Intangible assets refer to the identifiable non-monetary assets owned or controlled by the Company which have no physical form.

#### 1. *Initial measurement of intangible assets*

The cost of externally purchased intangible assets includes the purchase price, relevant taxation and other expenses directly attributable to bringing the asset to expected usage. If payment for the price of intangible assets purchased is delayed beyond normal credit conditions and is in fact financing in nature, the cost of the intangible asset is determined based on the present value of the purchase price.

For intangible asset obtained through debt restructuring for offsetting the debt of the debtor, the booked value of the intangible asset is determined based on its fair value, and the difference between the carrying amount of the restructured debt and the fair value of the intangible asset used for offsetting the debt is recognized in profit or loss for the period.

The book value of intangible asset received in an exchange for non-monetary asset is based on the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; for exchange of nonmonetary asset that cannot satisfy the above conditions, the cost of the intangible asset received is based on the carrying amount of the asset surrendered and the amount of relevant taxation payable, and no profit or loss is recognized.

For intangible asset obtained through business absorption or combination of entities under common control, the book value is determined by the carrying amount of the combined party; for intangible asset obtained through business absorption or merger of entities not under common control, the book value is determined by the fair value of the intangible asset.

The cost of an internally developed intangible asset include: the materials consumed in developing the intangible asset, labor costs, registration fees, amortization of other patented rights and licensed rights used during the development process, interest expenses meeting capitalization conditions, and other direct costs for bringing the intangible asset to expected usage.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXIV) Intangible Assets and Development Expenses (Continued)

#### 2. Subsequent measurement of intangible assets

The Company determines the useful life of intangible assets on acquisition, which are classified as intangible life with limited life and indefinite life.

##### (1) Intangible asset with a limited life

Intangible asset with a limited life is depreciated using straight-line method over the term which it brings economic benefit to the Company. The estimated useful life and basis for the intangible assets with a limited life are as follows:

Item	Estimated service life	Basis
Software	5-10 years	Amortized by straight-line basis

The useful life and depreciation method of intangible assets with limited life are reassessed at the end of each period. If the original estimate varies, corresponding adjustments are made.

Upon re-assessment, at the end of the period there was no difference in the useful life and depreciation method of intangible assets from the previous estimates.

#### 3. Specific criteria in dividing the research stage and development stage of internal research and development projects of the Company

Research stage: The stage of original planned investigation and research activities to acquire and understand new scientific or technical knowledge.

Development stage: The stage of activities that apply research results or other knowledge to a plan or design to produce new or substantially improved materials, devices, products, etc. before commercial production or use.

The expenses incurred in the research stage of internal research and development projects are recognized as expense in profit or loss for the period.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXIV) Intangible Assets and Development Expenses (Continued)

#### 4. *Specific criteria of capitalization for expenses during development stage*

The expenses during development stage of internal research and development projects are recognized as intangible asset when all the below conditions are met:

- (1) it is technically feasible to complete the intangible asset to bring it to useable or saleable conditions;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) there is a way for generating economic benefits from the intangible asset, including the ability to prove there exists a market for products produced using the intangible asset or there exists a market for the intangible asset itself; for intangible asset to be used internally, its usability can be proved;
- (4) there is enough support in the areas of technology, financial and other resources to complete the development of the intangible asset, and there is the ability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be reliably measured.

The expenses during development stage that do not comply with the conditions above are included profit or loss for the period on incurrence. Development expense included in profit or loss in previous period are not re-recognized as assets in subsequent period. Capitalized expenses during development stage are presented as development expenses on the balance sheet and transferred to intangible assets since they reach the intended use.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XXV) Impairment of Long-term Assets

The Company makes a judgment on whether there is any sign of possible long-term assets impairment on the balance sheet date. Where there is any evidence indicating a possible impairment of assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets based on the asset group to which the asset belongs.

The estimate of the recoverable amount of the assets are determined at the higher of the net amount of the fair value less the disposal expenses and the present value of the estimated future cash flows.

Where the measurement result of the recoverable amount indicates that the recoverable amount of the long-term asset is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as the loss of asset impairment and be recorded as the profit or loss for the current period. Simultaneously, a provision for the asset impairment shall be made accordingly. Once the asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

After the loss of asset impairment has been recognized, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net salvage value) within the residual service life of the asset.

No matter whether there is any sign of possible assets impairment, the business reputation formed by the merger of enterprises and intangible assets with uncertain service lives shall be subject to impairment test every year.

When making impairment task on the goodwill shall, amortize the carrying amount of goodwill to asset group or combination of asset group, which are expected to be beneficial from business combination. When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the Company shall first make an impairment test on the asset groups or combinations of asset groups not containing the goodwill, calculate the recoverable amount, compare it with the relevant carrying value and recognize the corresponding impairment loss. Then the Company shall make an impairment test of the asset groups or combinations of asset groups containing goodwill, and compare the carrying value of these asset groups or combinations of asset groups (including the carrying value of the goodwill apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXVI) Long-term Prepaid Expenses

#### 1. Amortization method

Long-term prepaid expenses of the Company refer to expenses that already been spent and the benefit period is one year or more. Long-term prepaid expenses are amortized using the straight-line method in its benefit period.

#### 2. Amortization period

Type	Amortization period	Remark
Renovation fees	5 years	Straight-line method
Rental fees	2.08-15 years	Straight-line method

### (XXVII) Contract Liabilities

Contract Liabilities refer to the Company's obligation to provide goods to the customer for the consideration received or receivable.

### (XXVIII) Employee Remuneration

Employee remuneration refers to all kinds of remunerations and other relevant reimbursements made by enterprises to their employees in exchange for services of said employees, including short-term employee remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

#### 1. Short-term remuneration

Short-term remuneration refers to the employee compensation in addition to post-employment benefits and termination benefits, which are required to be fully paid within 12 months upon the annual reporting period when the employees provide relevant services. During the accounting period when the employees provides services, the Company recognizes the short-term remuneration payable as liabilities and includes them into relevant asset costs and expenses according to benefits from the services provided by employees.

#### 2. Post-employment benefits

Post-employment benefit refers to all kinds of remunerations and benefits other than short-term remuneration and termination benefits that are provided by the Company after the retirement of the employees or termination of labor ration with enterprises in exchange for services provided by employees.

The Company's post-employment benefits are categorized as defined contribution plans and defined benefit plans.

Defined contribution plan of the Group refers to the basic endowment insurance, unemployment insurance paid for the employees according to relevant regulation by local governments. During the accounting period when employees render services to the Group, amount payable calculated by the base and ratio in conformity with local regulation is recognized as liability and accounted for profit and loss or related cost of assets.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXVIII) Employee Remuneration (Continued)

#### 2. *Post-employment benefits (Continued)*

Post-employment benefit defined benefit plans provide for a defined standard of uncoordinated benefits payable primarily to retired employees, and for the cost of living for families of deceased employees. The obligations assumed under defined benefit plans are actuarially determined at the balance sheet date by independent actuaries using the projected cumulative benefit unit method to attribute the benefit obligations arising from the defined benefit plans to the period in which the employees render services and are included in profit or loss for the period or in the cost of the related assets, in which: unless other accounting standards require or permit the cost of employee benefits originally included in the cost of assets and the cost of defined benefit plan services, the cost of defined benefit, the net interest on the net liabilities or net assets of the plan to be included in profit or loss in the period in which it is incurred; changes arising from the remeasurement of the net liability or net asset of the defined benefit plan are included in other comprehensive income in the period in which they are incurred and are not allowed to be reversed to profit or loss in subsequent accounting periods.

#### 3. *Termination benefits*

Termination benefit refers to indemnity provided by enterprises for employees for the purpose of terminating labor relation with the employees before the expiry of the labor contract or encouraging employees to accept downsizing voluntarily. When the earlier of Company cannot unilaterally withdraws the employment relations or cut-down proposals and the date of confirmation of relevant cost and expenses on paying termination benefits, those liabilities arising from the confirmed terminations is charged to profit or loss for the period.

The Company provides early retirement benefits to those employees who accepted early retirement arrangement. Early retirement benefits mean payment of those salaries and paid social insurance and other expenses made to those who are under the government regulated retirement age and their early retirement were approved by the Company's management. The Company will pay early retirement benefits to those employees from the early retirement date to normal retirement date and consider the cost as liability and one-off charge to the profit or loss for the period. Difference arising from change in assumption on actuarial calculation and change in benefit standards, will be charged to profit or loss for the period when it incurs.

#### 4. *Other long-term employment benefit*

Other long-term employment benefit refers to all employee benefit except for short-term benefit, post-employment benefit, and termination benefit.

For other long-term employee benefits that meet the conditions of the defined contribution plan, during the accounting period in which the employee provides services for the company, the amount that should be paid is recognized as a liability and is included in the profit or loss for the period or the cost of the relevant assets. In addition to the above situations, other long-term employee benefits are actuarially calculated by the independent actuary using the expected cumulative welfare unit method on the balance sheet date, and the welfare obligations arising from the defined benefit plans are attributed to the period during which the employees provide services and are included in the current profit and loss or related asset costs.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXIX) Estimated Liabilities

#### 1. *Recognition criteria for estimated liabilities*

The Company shall recognise the obligations related to contingencies as estimated liabilities, when all the following conditions are satisfied:

the obligation is a present obligation of the Company;

it is probable that an outflow of economic benefits will be required to settle the obligation;

the amount of the obligation can be measured reliably.

#### 2. *Method of measuring estimated liabilities*

Estimated liabilities shall be initially measured at the best estimate of the expenditure required to settle the related present obligation.

Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow.

The best estimate will be dealt with separately in the following circumstances:

The expenses required have a successive range (or band), in which the possibilities of occurrence of each result are the same, and the best estimate should be determined as the middle value for the range, i.e. the average of the upper and lower limit.

The expenses required does not have a successive range (or band), or although there is a successive range (or band), the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the possible results and the relevant possibilities.

Where some or all the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognised as an asset when it is virtually certain that the reimbursement will be received. The amount recognised for the reimbursement is limited to the carrying amount of the liability recognised.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXX) Share-based Payments

#### 1. *Type of Share-based payments*

The Company's share-based payments included equity-settled share-based payments and cash-settled share-based payments.

#### 2. *Confirmation methods for equity instruments*

For granted equity instruments such as options that exist in an active market, the fair value of an equity instrument is determined according to the quotation in the active market. For granted equity instruments such as options that do not exist in an active market, the option pricing model is used to determine the fair value. The option pricing model selected considers the following factors: (1) The exercise price of the option; (2) The validity period of the option; (3) The current price of the underlying shares; (4) The expected volatility of the stock price; (5) The expected dividend of the shares; (6) The risk-free interest rate within the validity period of the option.

When determining the fair value of the equity instrument grant date, the impact of market conditions and non-feasible rights conditions in the vestable rights conditions stipulated in the share payment agreement is considered. If there are non-feasible rights conditions for share payment, as long as the employees or other parties meet the non-market conditions (such as the service period, etc.) of all the rights conditions, the cost corresponding to the service received is confirmed.

#### 3. *The basis for determining the best estimate of an exercisable equity instrument*

During the waiting period on each balance sheet date, the best estimate is made based on the latest changes in the number of employees with available rights and other follow-up information, and the number of equity instruments with estimated available rights is revised. On the exercisable date, the final estimated number of exercisable equity instruments is consistent with the actual number of exercisable rights.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXX) Share-based Payments (Continued)

#### 4. Accounting treatment

In the case of an equity-settled share-based payment, the fair value of the employee's equity instrument is measured. If the vesting right is granted immediately after the grant, the relevant costs or expenses shall be included in the fair value on the grant date, and the capital reserve shall be increased accordingly. If the right to service during the waiting period is fulfilled or the required performance conditions are met, on each balance sheet date during the waiting period, the company makes the best estimate of the number of vesting equity instruments. Based on this, according to the fair value of the grant date, the services obtained in the current period will be included in the relevant costs or expenses, and the capital reserve will be increased accordingly. No adjustments have been made to the identified related costs or expenses and total owner's equity after the vesting date.

A cash-settled share-based payment shall be measured in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Group. It is initially measured at fair value on the date of grant, taking account into the terms and conditions of the equity instrument granted. If the right may be exercised immediately after the grant, the fair value of the liability undertaken by the enterprise shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. If the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the enterprise. For each of the balance sheet date and settlement date before the settlement of the relevant liabilities, fair value of the liabilities will be remeasured, and the changes will be included in the profit or loss for the current period.

If the granted equity instrument is cancelled during the waiting period, the company will treat the cancellation of the granted equity instrument as an accelerated exercise, and the amount that should be confirmed in the remaining waiting period is immediately included into the current profit and loss, and the capital reserve is recognized. If the employee or other party can choose to meet the non-feasible exercise condition but is not satisfied within the waiting period, the company will treat it as the cancellation of the grant of equity instruments.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XXXI) Income

The main revenue streams of the Company are from the following businesses: heat supply and transmission service, construction and maintenance.

##### 1. *General principles of revenue recognition*

The Company has fulfilled the performance obligations in the contract, that is, when the customer obtains control of the relevant goods or services, the revenue is recognized at the transaction price allocated to the performance obligation.

The performance obligation refers to the commitment of the Company to transfer the goods or services that can be clearly distinguished to the customer in the contract.

Obtaining control of related commodities means being able to lead the use of the commodities and obtain almost all economic benefits from them.

The Company evaluates the contract on the contract start date, identifies the individual performance obligations contained in the contract, and determines whether the individual performance obligations are performed within a certain period of time or at a certain point in time. If one of the following conditions is met, it is a performance obligation performed within a certain period of time. The Company recognizes revenue within a period of time according to the progress of the performance: (1) The customer obtains and consumes the Company's performance office while the Company is performing the contract Economic benefits brought; (2) The customer can control the goods under construction of the Company during the performance of the contract; (3) The goods produced by the Company during the performance of the contract have irreplaceable uses, and the Company has the right to Receiving money for the accumulated performance part that has been completed so far. Otherwise, the Company recognizes revenue when the customer obtains control of the relevant goods or services.

For the performance obligations performed within a certain period of time, the Company uses the input method to determine the appropriate performance progress based on the nature of the goods and services. The output method is to determine the performance progress based on the value of the commodities that have been transferred to the customer (the input method is to determine the performance progress based on the Company's investment to fulfil the performance obligation). When the performance progress cannot be reasonably determined, if the Company's already incurred costs are expected to be compensated, revenue is recognized according to the amount of costs incurred until the performance progress is reasonably determined.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXI) Income (Continued)

#### 2. Detailed method for revenue recognition

##### (1) Provision of heat service

When the Company satisfies its performance obligations for heat supply services, if the customer simultaneously receives and consumes the resources provided by the Company, it is a performance obligation satisfied within a certain period of time. Revenue from heat supply services is recognised on the basis of the actual heating area and the heating price approved by relevant government departments, and is recognised in monthly instalments over the heating period in proportion to the number of heating days as a percentage of the total number of heating days.

##### (2) Pipeline connection fee

The pipeline connection fee is a one-off fee charged by the Company to the customers for the connection of the primary pipeline network for residential customers and is non-refundable. The Company enters into a contract with a customer and agrees to a heating service period, and income from the pipeline connection fee is recognised on a straight-line basis over the customer's beneficial period. The Company has determined the beneficial period to be 16 years.

##### (3) Heat transmission service

Revenue from the provision of heat transmission service, which utilises the heat transmission network of the Company to provide heat transmission service to other heat supply units, is recognised at the point in time when control of heat is transferred to the customer, which is generally when heat is transmitted to the customer.

##### (4) Engineering construction and maintenance services

When the Company satisfies its performance obligation for engineering construction and maintenance services, if the customer is able to control the Company's asset created or enhanced in the performance process, it is a performance obligation satisfied within a certain period of time, and the Company recognises the revenue based on the progress of performance, which is determined by the proportion of the actual costs incurred to the estimated total cost of achieving the construction services.

##### (5) Design services

The design services provided by the Company include design, consultancy and feasibility studies for heating projects is a performance obligation satisfied within a certain period of time due to the results produced in the course of the Company's performance are of irreplaceable use and the Company is entitled to receive payment for the cumulative portion of performance completed to date throughout the contract period, and the Company recognises the revenue based on the progress of performance, which is determined by the proportion of the actual costs incurred to the estimated total cost.

##### (6) 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.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXII) Contract Costs

#### 1. *Contract performance cost*

The Company's costs incurred for the performance of the contract that are not within the scope of other ASBEs other than income standards and meet the following conditions at the same time are recognized as an asset as contract performance costs:

- (1) The cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing expenses (or similar expenses), clear costs borne by the customer, and other costs incurred solely for the contract;
- (2) This cost increases the resources that the company will use to fulfill its performance obligations in the future;
- (3) The cost is expected to be recovered.

The asset is presented in inventory or other non-current assets based on whether the amortization period at the time of initial recognition exceeds a normal business cycle.

#### 2. *Contract obtainment cost*

If the incremental cost of the Company is expected to be recovered, the contract acquisition cost is recognized as an asset. Incremental cost refers to the cost that the Company will not occur without obtaining a contract, such as sales commission. For the amortization period not exceeding one year, it is included in the current profit and loss when it occurs.

#### 3. *Amortization of contract costs*

The Company recognizes the contract performance cost and the contract acquisition cost on the same basis as the commodity income related to the contract cost asset, and amortizes it at the time when the performance obligation is performed or in accordance with the performance of the performance obligation, and is included in the current profit and loss.

#### 4. *Contract cost impairment*

For the above assets related to contract costs, the carrying amount is higher than the difference between the Company's expectation that the goods related to the asset are expected to obtain the remaining consideration and the estimated cost of transferring the relevant goods, and the excess should be depreciated and confirmed as asset impairment losses.

After the impairment provision is accrued, if the factors of impairment in the previous period change, so that the above two differences are higher than the carrying amount of the asset, the asset impairment provision previously accrued is transferred back to the current profit and loss, but it is transferred. The carrying amount of the asset after the return does not exceed the carrying amount of the asset on the date of reversal under the assumption that no impairment provision is made.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXIII) Government Grants

#### 1. Classification

Government grants refer to monetary and non-monetary assets received from the government without compensation. According to the subsidy object stipulated in the documents of relevant government, government grants are divided into subsidies related to assets and subsidies related to revenue.

Government grants related to assets are obtained by the Company for the purposes of constructing or forming long-term assets in other ways. Government grants related to revenue refer to the government grants other than those related to assets.

#### 2. Recognition of government grants

Where evidence shows that the Company complies with relevant conditions of policies for financial supports and are expected to receive funds rapidly at the end of the period, the amount receivable is recognized as the government grants. Otherwise, the government subsidy is recognized upon receipt.

Government grants in the form of monetary assets are stated at the amount received or receivable. Government grants in the form of non-monetary assets are measured at fair value; if fair value cannot be obtained, a nominal amount (RMB1) is used. Government grants that are measured at nominal amount shall be recognized in profit or loss for the period directly.

#### 3. Accounting treatment

According to the essence of economic business, the Company determines that a certain type of government subsidy business should be accounted for using the gross method or net method. In general, the Company uses only one method for similar or comparable government grant operations and applies that method consistently to that operation.

Government grants related to assets shall offset the carrying amount of the relevant assets or be recognised as deferred income. If the government grants related to assets are recognized as deferred income, they shall be included in the profit and loss in installments in a reasonable and systematic manner within the useful life of the assets constructed or purchased.

Government grants related to income that are used for compensation for the relevant costs or losses of the Group in subsequent periods are recognized as deferred income and are included in the profit or loss in the current period or offset the relevant costs in the periods in which the relevant costs, expenses or losses are recognized; a grant that are used for compensation for the relevant costs or losses of the Group already incurred shall be directly included in the profit or loss in the current period or offset the related costs.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XXXIII) Government Grants (Continued)

##### 3. Accounting treatment (Continued)

Government grants related to daily activities of enterprises are included in other incomes or offset relevant costs; government grants that are not related to daily activities of enterprises are included in non-operating income and expenditure.

The government subsidy related to the discount interest received from policy-related preferential loans offsets the relevant borrowing costs; if the policy-based preferential interest rate loan provided by the lending bank is obtained, the actual borrowing amount received is recognized as the borrowing amount, and the relevant borrowing costs should be calculated based on the loan principal and the preferential policy rate.

When a recognized government grant needs to be returned, if the carrying amount of the relevant asset is offset at the initial recognition, the carrying amount of the asset is adjusted. If there is balance of relevant deferred income, the carrying balance of the relevant deferred income is offset and the excess is recognised in profit and loss in the current period. If the relevant deferred income does not exit, it is directly recognised in profit and loss in the current period.

#### (XXXIV) Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and deferred tax liabilities are measured and recognized based on the difference (temporary difference) between the taxable base of assets and liabilities and their carrying amount. On balance sheet date, the deferred tax assets and deferred tax liabilities are measured at the applicable tax rate during the period, when it is expected to recover such assets or repay such liabilities.

##### 1. Criteria for recognition of deferred income tax assets

The Company recognizes deferred income tax assets arising from deductible temporary difference to the extent it is probably that future taxable amount will be available against which the deductible temporary difference can be utilized. However, the deferred income tax assets arising from the initial recognition of assets or liabilities in transactions are not recognized with the following features: (1) the transaction is not a business combination; or (2) neither the accounting profit or the taxable income or deductible losses is affected when the transaction occurs.

For deductible temporary difference in relation to investment in the associates, corresponding deferred income tax assets are recognized in the following conditions: the temporary difference is probably reversed in a foreseeable future and it is likely that taxable income is obtained for deduction of the deductible temporary difference in the future.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXIV) Deferred Tax Assets and Deferred Tax Liabilities (Continued)

#### 2. *Criteria for recognition of deferred income tax liabilities*

The Company recognizes deferred income tax liabilities on the temporary difference between the taxable but not yet paid taxation in the current and previous periods, excluding:

- (1) temporary difference arising from the initial recognition of goodwill;
- (2) transactions or events arising from non-business combination, and neither the accounting profit or the taxable income (or deductible losses) is affected when the transaction or event occurs;
- (3) for taxable temporary difference in relation to investment in subsidiaries or associates, the time for reversal of the difference can be controlled and the difference is probably not reversed in a foreseeable future.

#### 3. *Deferred income tax assets and deferred income tax liabilities are presented net of offset when the following conditions are met*

- (1) The enterprise has the legal right to settle the current income tax assets and current income tax liabilities on a net basis;
- (2) Deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities. However, in each future period in which the deferred income tax asset and deferred income tax liability are significant, the tax entity involved intends to settle the current income tax assets and current income tax liabilities on a net basis or simultaneously obtain assets and settle the current income tax liabilities.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXV) Lease

#### 1. Lease

##### (1) Identification of leases

On the beginning date of the contract, the Group (as a lessee or lessor) assesses whether the customer in the contract has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use and has the right to direct the use of the identified asset throughout the period of use. If a contract conveys the right to control the use of an identified asset and multiple identified assets for a period of time in exchange for consideration, the Group identifies such contract is, or contains, a lease.

##### (2) The Company as lessee

On the beginning date of the lease, the Company recognizes right-of-use assets and lease liabilities for all leases, except for short-term lease and low-value asset lease with simplified approach.

The lease liability is initially measured at the present value of the lease payments that are not paid at the beginning date of the lease using the interest rate implicit in the lease or the incremental borrowing rate. Lease payments include fixed payments and in-substance fixed payments, less any lease incentives receivable; variable lease payments that are based on an index or a rate; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; payments for terminating the lease, if the lease term reflects the lessee exercising that option of terminating; and amounts expected to be payable by the lessee under residual value guarantees. Subsequently, the interest expense on the lease liability for each period during the lease term is calculated using a constant periodic rate of interest and is recognized in profit or loss for the current period. Variable lease payments not included in the measurement of lease liabilities are charged to profit or loss in the period in which they actually arise. The Group calculates the interest expense of the lease liability for each period of the lease term based on the fixed periodic interest rate and is included in the current profit and loss. The variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss when incurred.

##### Short-term lease

Short-term leases refer to leases with a lease term of less than 12 months from the commencement date, except for those with a purchase option.

Lease payments on short-term leases are recognised in the cost of related assets or profit or loss for the period on a straight-line basis over the lease term.

For short-term leases, the Company chooses to adopt the above simplified approach for items that meet the conditions of short-term lease according to the classification of leased assets.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXV) Lease (Continued)

#### 1. Lease (Continued)

##### (2) The Company as lessee (Continued)

###### Low-value asset lease

A low-value asset lease is a lease that has a lower value of a single leased asset when it is a new asset.

For a low-value asset lease, the Company chooses the above simplified approach based on the specific circumstances of each lease. Lease payments on low-value asset leases are recognized on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss for the current period.

##### (3) The Company as lessor

When the Company is a lessor, a lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee. All leases other than financial leases are classified as operating leases.

###### Finance leases

Under finance leases, the Company records the booked value of finance lease receivables at the beginning of the lease term at the net lease investment, which is the sum of the unguaranteed residual value and the present value of the lease receivables outstanding at the beginning of the lease term discounted at the interest rate embedded in the lease. The Company, as lessor, calculates and recognizes interest income for each period of the lease term based on a fixed periodic interest rate. Variable lease payments obtained by the Company as lessor that are not included in the measurement of net lease investment are included in profit or loss for the period when they are actually incurred. Derecognition and impairment of finance lease receivables are accounted for in accordance with ASBE 22 - Recognition and Measurement of Financial Instruments and ASBE 23 - Transfers of Financial Assets.

###### Operating lease

Lease payments under operating leases are recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in relation to operating leases are capitalized and amortized over the lease term on the same basis as rental income and recognized in profit or loss for the current period. The variable lease payments obtained in relation to operating leases that are not included in the lease payments are recognized in profit or loss in the period in which they actually incurred.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (XXXV) Lease (Continued)

##### 1. Lease (Continued)

###### (4) Sublease

When the Company is an intermediate lessor, the sublease is classified with reference to the right-of-use assets arising from the head lease. If the head lease is a short-term lease for which the Company adopts a simplified approach, then the Company classifies the sublease as an operating lease.

###### (5) Sale and leaseback

The lessee and the lessor shall assess and determine whether the transfer of assets in a sale and leaseback transaction is a sale in accordance with the requirements of ASBE 14 – Revenue.

Where asset transfer under the sale and leaseback transactions is a sale, the lessee shall measure the right-of-use assets created by the sale and leaseback based on the portion of carrying amount of the original assets related to right of use obtained upon leaseback, and only recognize relevant profit or loss for the right transferred to the lessor. The lessor shall account for the purchase of assets in accordance with other applicable ASBEs and account for the lease of assets in accordance with this standard.

Where asset transfer under the sale and leaseback transactions is not a sale, the lessee shall continue to recognize the transferred assets while recognizing a financial liability equal to the transfer income and account for such liability according to ASBE 22 – Recognition and Measurement of Financial Instruments; or not to recognize the transferred assets but recognize a financial asset equal to the transfer income and account for such asset according to ASBE 22 – Recognition and Measurement of Financial Instruments.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXV) Lease (Continued)

#### 2. *Right-of-use assets*

##### (1) *Conditions for recognition of right-of-use assets*

Right-of-use assets of the Company are defined as the right of underlying assets in the lease term for the Company as a lessee.

Right-of-use assets are initially measured at cost at the commencement date of the lease. The cost includes the amount of the initial measurement of lease liability; lease payments made at or before the inception of the lease less any lease incentives enjoyed; initial direct costs incurred by the Company as lessee; costs to be incurred in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease incurred by the Company as lessee. As a lessee, the Company recognizes and measures the costs of dismantling and restoration in accordance with ASBE 13 – Contingencies. Subsequently, the lease liability is adjusted for any remeasurement of the lease liability.

##### (2) *Depreciation method of right-of-use assets*

The Company uses the straight-line method for depreciation. Where the Company, as a lessee, is reasonably certain to obtain ownership of the leased asset at the end of the lease term, such asset is depreciated over the remaining useful life of the leased asset. Where ownership of the lease assets during the lease term cannot be reasonably determined, right-of-use assets are depreciated over the lease term or the remainder of useful lives of the lease assets, whichever is shorter.

##### (3) For the methods of impairment test and impairment provision for right-of-use assets, please refer to Note IV(X) – 6. Impairment of financial instruments.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### (XXXVI) Discontinued Operation

The Company will satisfy one of the following conditions, and the component has been disposed of or classified as held for sale, and can be separately recognized as a component of discontinued operation:

- (1) the component represents an independent main business or a separate major business area;
- (2) This component is proposed disposal plan on an independent main business or proposed disposal in a separate major business area;
- (3) This component is a subsidiary that is specifically acquired for resale.

Operational gains and losses such as impairment losses and reversal amounts of discontinued operations and disposal gains and losses are listed in the income statement as profit or loss of discontinued operations.

### (XXXVII) Asset Securitization Business

The Company securitized a portion of its heating contract debt assets by issuing securities to qualified investors. The interest in the securitized financial assets is retained in the form of credit-enhanced, subordinated debentures. The retained interests are recorded at fair value in the Company's balance sheet. The difference between the carrying amount of a financial asset derecognized in the process of securitization and its consideration (including the retained interest) is recognized as a gain or loss on securitization and is included in profit or loss for the period.

### (XXXVIII) Production Safety Expense

The Company's production safety expenses, which are provided in accordance with national regulations, are included in the cost of the relevant products or profit or loss for the period, and are also recorded in the "Special Reserve" account. When the provision of production safety expenses is used, it is directly offset in the special reserve if it is an expense. If the production safety expenses formed a fixed asset, the expenditure incurred is accounted for in the item "Construction in progress" and recognized as a fixed asset when the safety project is completed and reaches its intended useable state; meanwhile, the special reserve is written down to the cost of forming fixed assets and accumulated depreciation of the same amount is recognized. No further depreciation is charged on the fixed assets in subsequent periods.

### (XXXIX) Changes in Significant Accounting Policies and Accounting Estimates

#### 1. Changes in accounting policies

There were no changes in accounting policies during the reporting period. However, the figures in this reporting period, together with the comparative figures for the year ended 31 December 2019, have been prepared in accordance with the disclosure requirements of the ASBEs.

#### 2. Changes in accounting estimates

There were no changes in key accounting estimates during the reporting period.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## V. TAXATION

### (I) Main Types of Taxes and Corresponding Rates

Tax type	Basis of taxation	Tax rate	Remark
Value-added tax ("VAT")	Domestic sales, provision of processing, repair and replacement services; provision of goods; provision of tangible personal property leasing services	13%	
	Provision of construction, real property leasing services; sale of real estate; transfer of land use rights	9%	
	Other taxable sales of services	6%	
City maintenance and construction tax	Simple taxation method	5% or 3%	
	Amount of turnover tax paid	7%	
Education surcharge	Amount of turnover tax payable	3%	
Local education surcharge	Amount of turnover tax payable	2%	
Enterprise income tax	Amount of turnover tax payable	25%/15%	
Property tax	Based on 70% of the original value of property (or rental income)	1.2%	

Income tax rates of different tax-paying entities:

Name of tax-paying entities	Income tax rate
Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司)	25%
Changchun City Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司)	25%
Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司)	25%
Jilin Province Heating Engineering Design and Research Company Limited* (吉林省熱力工程設計研究有限責任公司)	15%
Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱儀錶電氣有限公司)	25%
Jilin Province Chuncheng Biomass Power Co., Ltd.* (吉林省春城生物質能源有限公司)	25%
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	15%
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	25%
Jilin Province Hengda New Energy Technology Development Company Limited* (吉林省恒達新能源科技發展有限公司)	25%
Jilin Province Hengxin Electricity Co. Ltd.* (吉林省恒信售電有限公司)	20%

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## V. TAXATION (CONTINUED)

### (II) Preferential Tax Policies and Basis

#### 1. VAT

- (1) The Company, Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司) and Jilin Province Xixing Energy Limited\* (吉林省西興能源有限公司) were subject to the “Notice on the Renewal of Preferential Policies on VAT, Property Tax and Urban Land Use Tax for Heat Supply Enterprises” (Cai Shui [2019] No. 38) (《關於延續供熱企業增值稅房產稅城鎮土地使用稅優惠政策的通知》財稅[2019]38號) issued by the Ministry of Finance and the State Administration of Taxation, which stated that in order to support residents’ heating needs, the policies on VAT, property tax and urban land use tax for heat supply enterprises in the “three north” regions (hereinafter referred to as heat supply enterprises) are as follows: I. Starting from 1 January 2019 to the end of the heating period in 2020, heat supply fee income generated by heat supply enterprises for heat supplied to individual residents (hereinafter collectively referred to as residents) shall be exempted from VAT.
- (2) Pursuant to the “Announcement on Policies Relating to the Deepening of VAT Reform (Ministry of Finance, State Administration of Taxation, General Administration of Customs Announcement No. 39 of 2019) (《關於深化增值稅改革有關政策的公告》(財政部、稅務總局、海關總署公告2019年第39號)), from 1 April 2019 to 31 December 2021, a taxpayer in the production or life service industry is allowed to credit the amount of input tax deductible in the current period plus 15% thereof against the amount of taxes payable, and based on the “Notice of the National Bureau of Statistics on the Issuance of the Statistical Classification of Production Service Industry (2019)” (Guo Tong Zi [2019] No. 43) (《國家統計局關於印發(生產性服務業統計分類(2019))的通知》(國統字[2019]43號)), Jilin Province Heating Engineering Design and Research Company Limited\* (吉林省熱力工程設計研究有限責任公司) belongs to the production service industry.

#### 2. Income tax

- (1) Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司) was recognised as a High and New Tech Enterprise by the Department of Science and Technology of Jilin Province (吉林省科學技術廳), the Department of Finance of Jilin Province (吉林省財政廳) and the Taxation Bureau of Jilin Province of the State Administration of Taxation (國家稅務總局吉林省稅務局) in accordance with the “Measures for Determination of High and New Tech Enterprises” (《高新技術企業認定辦法》), and obtained a “High and New Tech Enterprise Certificate” (《高新技術企業證書》) No. GR201922000414 in September 2019, which is valid for three years. The preferential corporate income tax rate of 15% was adopted for 2019 to 2021 for the calculation and payment of corporate income tax.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## V. TAXATION (CONTINUED)

### (II) Preferential Tax Policies and Basis (Continued)

#### 2. Income tax (Continued)

- (2) Jilin Province Heating Engineering Design and Research Company Limited\* (吉林省熱力工程設計研究有限責任公司) is subject to a corporate income tax rate of 20% according to Article II of the “Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises” (Cai Shui [2019] No. 13) (《財政部稅務總局關於實施小微企業普惠性稅收減免政策的通知》(財稅[2019]13號)), which stated that the annual taxable income of a small low-profit enterprise that is not more than RMB1 million shall be included in its taxable income at the reduced rate of 25%, with the applicable enterprise income tax rate of 20%. In other words, the effective tax burden is 5%.
- (3) Jilin Province Heating Engineering Design and Research Company Limited\* (吉林省熱力工程設計研究有限責任公司) is subject to a corporate income tax rate of 15% according to Rule II of Article XXVIII of the “Enterprise Income Tax Law” (《企業所得稅法》), Article XCIII of the “Regulation on the Implementation of the Enterprise Income Tax Law”, the “Notice of the Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation on Issuing the Administrative Measures for Determination of High and New Tech Enterprises” (Guo Ke Fa Huo [2016] No. 32) (《科技部財政部國家稅務總局關於修訂印發<高新技術企業認定管理辦法>的通知》(國科發火{2016}32號)), the “Circular of the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on Printing and Issuing of the Guidelines for the Administration of the Recognition of Hi-tech Enterprises” (Guo Ke Fa Huo [2016] No. 195) (《科技部財政部國家稅務總局關於修訂印發<高新技術企業認定管理工作指引>的通知》(國科發火{2016}195號)), and the “Announcement of the State Administration of Taxation on Issues Relating to the Implementation of Preferential Income Tax Policies for High and New Tech Enterprises” (Announcement of the State Administration of Taxation No. 24 of 2017) (《國家稅務總局關於實施高新技術企業所得稅優惠政策有關問題的公告》(國家稅務總局公告2017年第24號)), which stated that High and New Tech Enterprises are subject to corporate income tax at a tax rate of 15%. Since Jilin Province Heating Engineering Design and Research Company Limited\* (吉林省熱力工程設計研究有限責任公司) has obtained a High and New Tech Enterprise Certificate on 2 September 2019, which is valid for three years, it is eligible for the preferential enterprise income tax policy for High and New Tech Enterprises.

#### 3. Other taxes

According to the “Notice on Extension of Preferential Policies on VAT, Property Tax and Urban Land Use Tax for Heat Supply Enterprises” (Cai Shui [2019] No. 38) (《關於延續供熱企業增值稅房產稅城鎮土地使用稅優惠政策的通知》財稅[2019]38號) issued by the Ministry of Finance and the State Administration of Taxation, in order to support heat supply for residents, the policies on VAT, property tax and urban land use tax for heat supply enterprises in the “Three Northern Areas” (hereinafter referred to as heat supply enterprises) were announced as follows: II. from 1 January 2019 to 31 December 2020, for heat supply enterprises that receive heat supply fees for supplying heat to residents, the plant and land used for supplying heat to residents shall be exempted from property tax and urban land use tax; for other plants and lands of heat supply enterprises, property tax and urban land use tax shall be levied in accordance with the relevant regulations.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS

(The following amounts are in RMB if not otherwise specified. The opening balances are presented on 1 January 2020)

### Remark 1. Monetary Fund

Item	Closing balance	Opening balance
Cash on hand		157.95
Bank deposits	732,404,368.33	700,816,750.07
Other monetary fund		1,000,000.00
Total	732,404,368.33	701,816,908.02
Of which: Total amount of overseas funds	667,625.09	4,399,378.64

Breakdown of the restricted monetary funds are as follows:

Item	Closing balance	Opening balance
Deposit for bank acceptance bills		
Deposit for letter of credit		1,000,000.00
Guarantee deposit		
Time deposit or call deposit for guarantee purpose		
Total		1,000,000.00

As at 31 December 2020, save for those described above, the Company did not have any pledged, frozen or potentially recoverable amounts.

### Remark 2. Held-for-trading Financial Assets

Item	Closing balance	Opening balance
Sub-total of financial assets classified as measured at fair value through profit or loss	50,000,000.00	
Debt instrument investments		
Equity instrument investments		
Derivative financial assets		
Other	50,000,000.00	
Sub-total of financial assets designated as measured at fair value through profit or loss		
Debt instrument investments		
Hybrid instrument		
Other		
Total	50,000,000.00	

Description of held-for-trading financial assets: As at 31 December 2020, the Company had a closing balance of RMB50 million in held-for-trading financial assets. The product was a CMB product known as "Gold-linked Series Bullish Three-tier 920" (招行產品點金看漲三層920), with a duration of 92 days and a maturity date on 25 February 2021. It is a capital protected product carrying a floating interest rate between 1.35% to 3.63%, of which interest payment will be made once upon maturity together with the principal.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 3. Bills Receivable

1. Classification of bills receivable

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank acceptance bills	222,510.02	
Commercial acceptance bills		
Total	222,510.02	

2. The Company has no undue bills receivable that have been endorsed or discounted as at the end of the period.
3. There were no bills receivable transferring into trade receivables due to issuer's default as at the end of the period.
4. Additional description of bills receivable:

As at 31 December 2020, the Company considers that its bills receivable is not subject to significant credit risk and will not incur significant losses due to defaults by banks or other issuers.

### Remark 4. Trade Receivables

1. Disclosure of trade receivables based on ageing

<u>Ageing</u>	<u>Closing balance</u>	<u>Opening balance</u>
Within 1 year	214,235,473.54	302,287,066.33
1 to 2 years	65,307,430.19	27,984,530.36
2 to 3 years	6,691,906.92	9,315,347.63
3 to 4 years	7,871,090.43	2,513,907.30
4 to 5 years	2,083,921.24	2,845,635.79
Over 5 years	12,636,419.28	10,540,652.81
Sub-total	308,826,241.60	355,487,140.22
Less: Provision for bad debts	41,731,225.64	43,112,118.32
Total	267,095,015.96	312,375,021.90

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 4. Trade Receivables (Continued)

#### 2. Disclosure based on classification of provision method for bad debts

Category	Closing balance				
	Carrying balance		Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Trade receivables subjected to provision for ECL on individual basis					
Trade receivables subjected to provision for ECL on portfolio basis	308,826,241.60	100.00%	41,731,225.64	13.51%	267,095,015.96
Of which: Ageing analysis portfolio					
– Heat supply business	44,584,123.37	14.44%	9,191,009.32	20.61%	35,393,114.05
Ageing analysis portfolio – Engineering business	200,161,302.07	64.81%	24,647,607.18	12.31%	175,513,694.89
Ageing analysis portfolio – Basic heating fee	15,171,742.72	4.91%	7,892,609.14	52.02%	7,279,133.58
Related party portfolio	48,909,073.44	15.84%			48,909,073.44
Total	308,826,241.60		41,731,225.64		267,095,015.96
Category	Opening balance				
	Carrying balance		Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Trade receivables subjected to provision for ECL on individual basis					
Trade receivables subjected to provision for ECL on portfolio basis	355,487,140.22	100.00%	43,112,118.32	12.13%	312,375,021.90
Of which: Ageing analysis portfolio					
– Heat supply business	31,744,946.70	8.93%	8,425,946.19	26.54%	23,319,000.51
Ageing analysis portfolio – Engineering business	297,455,517.28	83.68%	29,371,985.91	9.87%	268,083,531.37
Ageing analysis portfolio – Basic heating fee	14,774,768.70	4.16%	5,314,186.22	35.97%	9,460,582.48
Related party portfolio	11,511,907.54	3.24%			11,511,907.54
Total	355,487,140.22	100.00%	43,112,118.32		312,375,021.90



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 4. Trade Receivables (Continued)

3. Trade receivables subjected to provision for ECL on portfolio basis

(1) Trade receivables subjected to provision for bad debts under the ECL model as at 1 January 2019

1) Ageing analysis portfolio – Heat supply business

Ageing	Carrying balance	Closing balance	
		Provision for bad debts	Proportion of provision (%)
Within 1 year	28,011,943.93	733,912.93	2.62%
1 to 2 years	6,309,504.74	894,687.77	14.18%
2 to 3 years	2,280,781.08	610,108.94	26.75%
3 to 4 years	1,366,780.41	566,393.80	41.44%
4 to 5 years	720,551.19	491,343.86	68.19%
Over 5 years	5,894,562.02	5,894,562.02	100.00%
Total	44,584,123.37	9,191,009.32	

2) Ageing analysis portfolio – Engineering business

Ageing	Carrying balance	Closing balance	
		Provision for bad debts	Proportion of provision (%)
Within 1 year	163,621,103.11	10,619,009.59	6.49%
1 to 2 years	27,384,965.36	5,654,995.34	20.65%
2 to 3 years	1,881,518.02	1,467,772.21	78.01%
3 to 4 years	5,422,987.13	5,063,443.08	93.37%
4 to 5 years	335,000.00	326,658.50	97.51%
Over 5 years	1,515,728.45	1,515,728.46	100.00%
Total	200,161,302.07	24,647,607.18	

3) Ageing analysis portfolio – Basic heating fee

Ageing	Carrying balance	Closing balance	
		Provision for bad debts	Proportion of provision (%)
Within 1 year	3,753,626.48	429,790.23	11.45%
1 to 2 years	2,234,287.41	455,347.77	20.38%
2 to 3 years	1,848,007.08	590,992.66	31.98%
3 to 4 years	1,081,322.89	518,926.86	47.99%
4 to 5 years	1,028,370.05	671,422.81	65.29%
Over 5 years	5,226,128.81	5,226,128.81	100.00%
Total	15,171,742.72	7,892,609.14	

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 4. Trade Receivables (Continued)

4. Particulars of the top five trade receivables at the end of the period

Name	Closing balance	Percentage to the closing balance of trade receivables (%)	Provision for bad debts made
Aggregate closing balance of top five trade receivables	180,676,319.28	59.53%	13,010,884.49

or:

Name	Closing balance	Percentage to the closing balance of trade receivables (%)	Provision for bad debts made
China Railway 9th Bureau Group No. 4 Engineering Co., Ltd.* (中鐵九局集團第四工程有限公司)	76,907,593.32	19.14%	5,377,250.47
Yanji Heating Inc.* (延吉市熱力公司)	37,783,150.22	9.40%	2,452,126.45
China Railway 9th Bureau Group Co., Ltd.* (中鐵九局集團有限公司)	30,772,151.23	7.66%	1,997,112.61
Changchun Light Rail Heat Supply Co., Ltd.* (長春市輕軌供熱有限公司)	18,821,204.40	4.68%	
(Jilin Railway Surveying and Design Institute Co., Ltd.* (吉林鐵道勘察設計院有限公司)	16,392,220.11	5.40%	3,184,394.96
Total	180,676,319.28	59.53%	13,010,884.49

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 5. Trade Receivables Financing

Item	Closing balance	Opening balance
Project payments receivable	125,254,548.10	
Total	125,254,548.10	

#### 1. Description of trade receivables financing

The Company's trade receivables financing is mainly for project payment due from China Railway 9th Bureau\* (中鐵九局), and the Company has entered into a "Liability Transfer Agreement" with Yunlian (Tianjin) Supply Chain Management Co., Ltd\* (雲鏈(天津)供應鏈管理有限公司) (as the debtor) through an electronic financial platform operated by Zhongqi Yunlian (Beijing) Financial Information Service Co., Ltd.\* (中企雲鏈(北京)金融信息服務有限公司) ("Zhongqi Yunlian"), which stated that "4.1 The Transferor (i.e., the Company) guarantees that the Subject Liability to be transferred is true, legal and valid and there is no restriction on the transfer of the Subject Liability, and the Subject Liability is not pledged (whether or not the pledge is registered) or subject to other encumbrances; 4.3 The Transferee undertakes that it will voluntarily bear the risk of settlement of the Subject Liability after this Agreement becomes effective and shall not make claims for liabilities from the Transferor or Zhongqi Yunlian or demands for return of the Subject Liability due to failure of full settlement of the Subject Liability." The transfer price is the estimated interest rate of 4.15% plus platform handling fee. The amount of transfer for the year was RMB30 million, the amount of repayment was RMB28,669,325.01 and the handling fee was RMB1,330,674.99.

#### 2. Provision for bad debts

Category	Closing balance				Carrying amount
	Carrying balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables subjected to provision for ECL on individual basis					
Other receivables subjected to provision for ECL on portfolio basis	139,306,649.40	100.00%	14,052,101.30	10.09%	125,254,548.10
Of which: Amounts due from third parties					
– Engineering business	139,306,649.40	100.00%	14,052,101.30	10.09%	125,254,548.10
Total	139,306,649.40	100.00%	14,052,101.30	10.09%	125,254,548.10

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 6. Prepayments

1. Prepayments by ageing

Ageing	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	448,153,335.95	99.62	386,832,657.01	100.00
1 to 2 years	1,709,274.87	0.38		
2 to 3 years	15,600.00			
Over 3 years				
Total	449,878,210.82	100.00	386,832,657.01	100.00

2. Description of reasons for delay in settlement of significant prepayments ageing over 1 year

Name	Closing balance	Ageing	Reasons for delay in settlement
雙鴨山亞泰煤業有限公司	1,553,425.02	1 to 2 years	Performance not yet fulfilled
長春利華建築工程信息諮詢有限公司	79,441.82	1 to 2 years	Settlement not yet completed
長春博邦企業管理諮詢有限公司	63,000.00	1 to 2 years	Project not yet concluded
Total	1,695,866.84		

3. Particulars of the top five prepayments at the end of the period

Name	Closing balance	Percentage to the total prepayments (%)
Aggregate closing balance of top five prepayments	427,615,823.58	95.1

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 7. Other Receivables

Item	Closing balance	Opening balance
Other receivables	1,438,269.57	167,579,682.40
Total	1,438,269.57	167,579,682.40

### (I) Other receivables

#### 1. Disclosure based on ageing

Ageing	Closing balance	Opening balance
Within 1 year	1,053,581.69	163,921,483.44
1 to 2 years	546,449.12	3,283,672.84
2 to 3 years	276,083.00	315,583.54
3 to 4 years	175,183.54	
4 to 5 years		200,000.00
Over 5 years	200,000.00	
Sub-total	2,251,297.35	167,720,739.82
Less: Provision for bad debts	813,027.78	141,057.42
Total	1,438,269.57	167,579,682.40

#### 2. Classification by nature of the receivables

Nature of the amount	Closing balance	Opening balance
Current account payment	282,625.80	163,539,360.30
Petty money	995,464.24	2,325,797.04
Service fee	200,000.00	19,400.00
Pledge	59,600.00	50,000.00
Guarantee	128,000.00	126,354.70
Heating fee		1,520,332.25
Other	585,607.31	139,495.53
Total	2,251,297.35	167,720,739.82

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 7. Other Receivables (Continued)

##### (I) Other receivables (Continued)

##### 3. Disclosure based on three stages of financial asset impairment

Item	Closing balance			Opening balance		
	Carrying balance	Provision for bad debts	Carrying amount	Carrying balance	Provision for bad debts	Carrying amount
Stage one	2,251,297.35	813,027.78	1,438,269.57	167,720,739.82	141,057.42	167,579,682.40
Stage two						
Stage three						
Total	2,251,297.35	813,027.78	1,438,269.57	167,720,739.82	141,057.42	167,579,682.40

##### 4. Particulars of provision for bad debts of other receivables

Provision for bad debts	Stage one	Closing balance		Total
		Stage two	Stage three	
	12-months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
Opening balance		141,057.42		141,057.42
Opening balance during the current period which:				
– transferred to stage two				
– transferred to stage three				
– reversed to stage two				
– reversed to stage one				
Provision in the current period	671,970.36			671,970.36
Reversal in the current period				
Charge-off in the current period				
Written-off in the current period				
Other changes				
Closing balance	813,027.78			813,027.78

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 7. Other Receivables (Continued)

##### (I) Other receivables (Continued)

##### 4. Particulars of provision for bad debts of other receivables (Continued)

Provision for bad debts	Stage one 12-months ECL	Opening balance		Total
		Stage two Lifetime ECL (not credit impaired)	Stage three Lifetime ECL (credit impaired)	
Opening balance	70,549.57			70,549.57
Opening balance during the current period which:				
– transferred to stage two				
– transferred to stage three				
– reversed to stage two				
– reversed to stage one				
Provision in the current period	70,507.85			70,507.85
Reversal in the current period				
Charge-off in the current period				
Written-off in the current period				
Other changes				
Closing balance	141,057.42			141,057.42

##### 5. Particulars of the top five other receivables at the end of the period

Name	Nature of the amount	Closing balance	Ageing	Percentage to the closing balance of other receivables (%)	Closing balance of provision for bad debts
劉明超	Other	240,000.00	1 to 2 years	10.66%	84,438.27
吉林省利達傢具	Current account payment	200,000.00	Over 5 years	8.88%	200,000.00
岳晨昊	Petty money	180,000.00	Within 1 year: RMB50,000.00; 1 to 2 years: RMB130,000.00	8.00%	49,249.83
于昊	Petty money	157,000.00	Within 1 year	6.97%	11,029.03
史天林	Petty money	141,083.00	2 to 3 years	6.27%	9,910.89
Total		918,083.00		34.51%	354,628.02

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 8. Inventories

#### 1. Classification of inventories

Item	Closing balance			Opening balance		
	Carrying balance	Provision for decline in value	Carrying amount	Carrying balance	Provision for decline in value	Carrying amount
Raw materials	19,095,199.77	7,806,703.67	11,288,496.10	36,006,405.93	8,122,664.50	27,883,741.43
Inventories	526,040.40		526,040.40			
Revolving materials	25,842.01		25,842.01	43,334.10		43,334.10
Total	19,647,082.18	7,806,703.67	11,840,378.51	36,049,740.03	8,122,664.50	27,927,075.53

#### 2. Provision for decline in value of inventories

Item	Opening balance	Increase during the current period		Decrease during the current period		Closing balance
		Provision	Other	Reversal	Charge-off	
Raw materials	8,122,664.50				315,960.83	7,806,703.67
Inventories						
Revolving materials						
Total	8,122,664.50				315,960.83	7,806,703.67



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 9. Contract Assets

#### 1. Particulars of contract assets

Item	Closing balance			Opening balance		
	Carrying balance	Provision for decline in value	Carrying amount	Carrying balance	Provision for decline in value	Carrying amount
Quality guarantee deposit	19,663,959.02	1,532,817.51	18,131,141.51	20,770,202.85	1,195,835.73	19,574,367.12
Amounts completed but unsettled	230,138,350.91	14,124,866.40	216,013,484.51	193,159,093.13	13,872,862.47	179,286,230.66
Total	249,802,309.93	15,657,683.91	234,144,626.02	213,929,295.98	15,068,698.20	198,860,597.78

#### 2. Particulars of impairment provision for contract assets during the current period

Item	Opening balance	Movement during the current period			Closing balance
		Provision	Reversal	Charge-off or write-off	
Quality guarantee deposit	1,195,835.73	336,981.78			1,532,817.51
Amounts completed but unsettled	13,872,862.47	252,003.93			14,124,866.40
Total	15,068,698.20	588,985.71			15,657,683.91

### Remark 10. Other Current Assets

#### 1. List of other current assets

Item	Closing balance	Opening balance
VAT allowance	3,659,949.47	3,850,519.84
Prepaid income tax, net of eliminations	45,729.47	45,729.47
Prepaid land use tax		4,654.20
Amortisation of staff heating expenses	776,785.10	768,368.38
Total	4,482,464.04	4,669,271.89

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 11. Long-term Equity Investments

Investee	Opening balance	Increase in investment	Decrease in investment	Increase/decrease during the current period						Closing balance	Closing balance of impairment provision
				Investment gains and losses recognised using equity method	Other comprehensive income adjustment	Other changes in equity	Cash dividend declared or profits	Impairment provision	Other		
I. Joint venture											
II. Associate											
Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司)	57,561,274.07	52,000,000.00		1,448,819.21			-2,652,276.42		-108,357,816.86		
Sub-total	57,561,274.07	52,000,000.00		1,448,819.21			-2,652,276.42		-108,357,816.86		
Total	57,561,274.07	52,000,000.00		1,448,819.21			-2,652,276.42		-108,357,816.86		

#### Description of long-term equity investments:

The Company originally held 50% equity interest in Changchun FAW Sihuan Kinetic Company Limited\* (長春一汽四環動能有限公司), which was accounted for under the equity method. On 8 June 2020, the Company held an extraordinary board meeting and passed the "Proposal to acquire 50% equity interest in Changchun FAW Sihuan Kinetic Company Limited" (《關於收購長春一汽四環動能有限公司50%股權的議案》). On 8 June 2020, the Company entered into an equity transfer agreement with Changchun FAWSN, pursuant to which Changchun FAWSN has agreed to transfer its 50% equity interest in FAW Sihuan (currently known as Xixing Energy) for RMB52 million. Upon completion of the acquisition, Changchun FAW Sihuan Kinetic Company Limited\* (長春一汽四環動能有限公司) became a wholly-owned subsidiary of the Company and was consolidated into the combined financial statements of the Company.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 12. Other Non-current Financial Assets

Item	Closing balance	Opening balance
Debt instrument		
Equity instrument		52,665,407.00
Hybrid instrument		
Derivative financial instrument		
Other		
Total		52,665,407.00

Description of other non-current financial assets:

According to the “Dongzheng Ronghui – Debt Asset-backed Special Plan for Yatai Heating” (東證融匯—亞泰熱力供熱公司債權資產支持專項計劃說明書) issued by Dongzheng Ronghui Securities Asset Management Co., Ltd.\* (東證融匯證券資產管理有限公司) in August 2016, Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司), a subsidiary of the Company, as a “specified originator”, subscribed for a total of 500,000 subordinated asset-backed securities, representing 5% of all asset-backed securities, in the amount of RMB50,000,000.00. The subordinated asset-backed securities were terminated and fully redeemed in May 2020.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 13. Investment Properties

Item	Buildings	Total
I. Original carrying amount		
1. Opening balance	11,248,606.61	11,248,606.61
2. Increase during the current period		
Addition		
Increase due to other reasons		
3. Decrease during the current period		
Disposal		
Decrease due to other reasons		
4. Closing balance	11,248,606.61	11,248,606.61
II. Accumulated depreciation (amortisation)		
1. Opening balance	3,021,812.28	3,021,812.28
2. Increase during the current period	356,541.96	356,541.96
Provision for the period	356,541.96	356,541.96
Increase due to other reasons		
3. Decrease during the current period		
Disposal		
Decrease due to other reasons		
4. Closing balance	3,378,354.24	3,378,354.24

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 13. Investment Properties (Continued)

Item	Buildings	Total
III. Impairment provision		
1. Opening balance		
2. Increase during the current period		
Provision for the period		
Increase due to other reasons		
3. Decrease during the current period		
Disposal		
Decrease due to other reasons		
4. Closing balance		
IV. Carrying amount		
1. Closing carrying amount	7,870,252.37	7,870,252.37
2. Opening carrying amount	8,226,794.33	8,226,794.33

### Remark 14. Fixed Assets

Item	Closing balance	Opening balance
Fixed assets	1,095,061,108.53	1,273,286,636.97
Liquidation of fixed assets		
Total	1,095,061,108.53	1,273,286,636.97

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 14. Fixed Assets (Continued)

#### 1. Particulars of fixed assets

Item	Property and buildings	Machinery and equipment	Transportation equipment	Pipeline network	Electronic and tools	Total
I. Original carrying amount						
1. Opening balance	158,480,940.89	727,146,974.46	16,178,448.77	1,800,870,151.96	51,025,532.12	2,753,702,048.20
2. Increase during the current period	41,203,893.94	61,694,098.04	2,368,265.47	65,881,173.58	10,650,112.94	181,797,543.97
Addition		2,404,264.60	1,045,982.51	485,084.23	3,317,759.36	7,253,090.70
Transfer from construction-in-progress		10,307,771.78		29,658,384.30	5,739,380.46	45,705,536.54
Business combination not under common control	41,203,893.94	48,982,061.66	1,322,282.96	35,737,705.05	1,592,973.12	128,838,916.73
3. Decrease during the current period	147,188,941.46	183,491,547.49			795,987.63	331,476,476.57
Disposal or retirement					68,420.00	68,420.00
Other decreases	147,188,941.46	183,491,547.49			727,567.62	331,408,056.57
4. Closing balance	52,495,893.37	605,349,525.01	18,546,714.24	1,866,751,325.54	60,879,657.44	2,604,023,115.60
II. Accumulated depreciation						
1. Opening balance	76,163,548.54	394,434,997.65	10,118,641.40	967,667,671.96	27,202,033.17	1,475,586,892.72
2. Increase during the current period	23,960,790.72	76,330,134.14	2,041,063.31	101,962,069.08	7,659,568.55	211,953,625.80
Provision for the period	4,949,604.60	47,596,144.49	1,670,078.68	81,604,420.15	6,315,036.41	142,135,284.33
Business combination not under common control	19,011,186.12	28,733,989.65	370,984.63	20,357,648.93	1,344,532.14	69,818,341.47
3. Decrease during the current period	76,465,574.39	106,436,293.44			727,906.35	183,629,774.18
Disposal or retirement					65,683.20	65,683.20
Transferred to investment properties	354,636.84					354,636.84
Other decreases	76,110,937.55	106,436,293.44			662,223.15	183,209,454.14
4. Closing balance	23,658,764.87	364,328,838.35	12,159,704.71	1,069,629,741.04	34,133,695.37	1,503,910,744.34
III. Impairment provision						
1. Opening balance		4,828,518.51				4,828,518.51
2. Increase during the current period		222,744.22				222,744.22
Provision for the period		222,744.22				222,744.22
Business combination not under common control						
Other increases						
3. Decrease during the current period						
Disposal or retirement						
Other decreases						
4. Closing balance		5,051,262.73				5,051,262.73
IV. Carrying amount						
1. Closing carrying amount	28,837,128.50	235,969,423.93	6,387,009.53	797,121,584.50	26,745,962.07	1,095,061,108.53
2. Opening carrying amount	82,317,392.35	327,883,458.30	6,059,807.37	833,202,480.00	23,823,498.95	1,273,286,636.97

Note 1: On 31 May 2020, Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司), a subsidiary of the Company, transferred physical assets such as land assets, buildings, boiler and equipment and inventories that are related to coal-fired furnaces, as well as debts and liabilities associated with them, to Changchun Heating (Group) Co., Ltd. (長春市熱力(集團)有限責任公司) at no cost, and recorded the amount of assets less liabilities as a capital reduction from Changchun Heating (Group) Co., Ltd. (長春市熱力(集團)有限責任公司) to Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司), the amount of which was RMB11,037.91.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 14. Fixed Assets (Continued)

2. There were no fixed assets which are temporarily idle at the end of the period.
3. There were no fixed assets which are leased under finance lease at the end of the period.
4. Fixed assets leased out under operating lease at the end of the period

<u>Item</u>	<u>Closing carrying amount</u>
Transportation equipment	26,666.67
Total	26,666.67

5. Fixed assets which do not have certificates of title at the end of the period

<u>Item</u>	<u>Carrying amount</u>	<u>Reasons for not having certificates of title</u>
Property and buildings	2,702,691.91	The carrying amount of the boiler plant, substation plant and office building of Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司), a subsidiary of the Company, was presented at RMB2,702,691.91 as at 31 December 2020, with no certificate of title; the land on which the building was located had been expropriated by the government and the nature of the land had been changed to become state-owned. As the land on which the building is located could not be processed for property title, the building could not obtain a certificate of title.
Total	2,702,691.91	

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress

Item	Closing balance	Opening balance
Construction-in-progress	26,472,742.26	
Construction materials	8,039,284.74	9,107,099.15
Total	34,512,027.00	9,107,099.15

#### (I) Construction-in-progress

##### 1. Particulars of construction in progress

Item	Closing balance		Opening balance		Carrying amount
	Carrying balance	Provision for impairment	Carrying balance	Provision for impairment	
Wanlong Area B heat exchange station (萬龍B區換熱站)	968,808.49				968,808.49
Wanlong Area A heat exchange station (萬龍A區換熱站)	933,995.59				933,995.59
Wanlong Yinhe heating line (萬龍銀河熱力幹線)	6,552,167.96				6,552,167.96
Xinxingyu heating line (新星宇熱力幹線)	15,203,298.39				15,203,298.39
Xinxingyu heat exchange station (新星宇換熱站)	962,373.29				962,373.29
Hengtao heat connector (恒濤熱力接引)	143,563.46				143,563.46
Smart heat supply management platform (智慧供熱管理平台)	61,008.85				61,008.85
Runde pipeline connector (潤德管線接引)	1,941.75				1,941.75
Plot BGH heat exchange station (BGH地塊換熱站)	1,093,268.23				1,093,268.23
Plot C heat exchange station (C地塊換熱站)	113,291.14				113,291.14
Qingyifang primary network (青怡坊一次網)	146,748.01				146,748.01
Qingyifang secondary network (青怡坊二次網)	292,277.10				292,277.10
Total	26,472,742.26				26,472,742.26

##### 2. Movements in material construction-in-progress during the current period

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Pipeline network project for Jilin Province Chuncheng Biomass Power Co., Ltd.* in Mishazi Laojie (吉林省春城生物質能源有限公司米沙子老街管網工程)		183,839.57	183,839.57		
Pipeline network project for agricultural and forestry biomass heat supply, peak regulation, heat source construction and water capacity enhancement in Yilong Station — supply and drainage (德惠市米沙子鎮農林生物質供熱調峰熱源建設水增容—龍站管網工程—給排水)		84,137.87	84,137.87		



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (I) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Pipeline network project for agricultural and forestry biomass heat supply, peak regulation, heat source construction and water capacity enhancement in heat exchange station for Fuyang Hospital (德惠市米沙子鎮農林生物質供熱調峰熱源建設水增容福陽醫院換熱站管網工程)		362,597.88	362,597.88		
Pipeline network project for agricultural and forestry biomass heat supply, peak regulation, heat source construction and water capacity enhancement in Jinpeng heat exchange station — supply and drainage (德惠市米沙子鎮農林生物質供熱調峰熱源建設水增容金鵬換熱站管網工程—給排)		627,410.97	627,410.97		
Fuhao — Heat metre replacement project of Fuhao Business Division (2020) (富豪—富豪事業部熱量表更換工程(2020))		87,967.88	87,967.88		
Fuhao — 2# heat exchanger replacement project in Songhui Station of Fuhao Business Division (2020) (富豪—富豪事業部松輝站2#換熱器更換工程(2020))		65,113.20	65,113.20		
Jianguan — Heat supply project in Jilin Communications Polytechnic (2020) (建管—吉林交通職業技術學院供熱工程(2020))		237,057.72	237,057.72		
Balance control project for residential and non-residential building (2020) (居民與非居民建築平衡控制工程(2020))		541,874.86	541,874.86		
Information Department — Audit project for Yatai's auto-control system (2020) (信息部—亞泰自控系統審計項目(2020))		789,459.41	789,459.41		
Yongchun — Circulation pump replacement project for Xisi heat exchange station of Yongchun Business Division (2020) (永春—永春事業部西四換熱站循環泵更換工程(2020))		53,633.94	53,633.94		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Dongling — Heat supply project for Xinxingyu's Nanxi Mansion Phase I* (東嶺—新星宇南熙府一期供熱工程)		1,299,016.61	1,299,016.61		
Pipeline network project for No. 2 Cogeneration Plant (Hongqi Street extension) (熱電二廠管網工程(紅旗街支綫))		1,996,644.38	1,996,644.38		
Pipeline network project for No. 2 Cogeneration Plant (pipeline network project phase I of extension no. 2 over Min Kang Road) (熱電二廠管網工程(一期二支綫過民康路段管網工程))		373,069.45	373,069.45		
Nanguan — Pipeline network project for No. 2 Cogeneration Plant — pipeline network project phase I of extension no. 2 (municipal extension pipelines) over Min Kang Road (南關—熱電二廠管網工程—一期二支綫市委綫過民康路段管網工程)		203,016.74	203,016.74		
Jing'er — Pipeline network project for Changchun Chengdu Culture Communication Co., Ltd.* (淨二—長春程度文化傳播有限公司管網工程)		129,111.66	129,111.66		
Pipeline network project for No. 2 Cogeneration Plant — Phase I main pipeline project for Provincial People's Congress (熱電二廠管網工程—一期主幹綫省人大管網工程)		1,993,895.34	1,993,895.34		
Jing'er — Pipeline network project for Baoyu Yuelanwan Phase II* (淨二—寶裕悅蘭灣二期管網工程)		929,052.97	929,052.97		
Pipeline network project for Changchun Wanxing Tianyao Real Estate Development Co., Ltd.* (長春市萬星天耀房地產開發有限公司管網工程)		268,341.20	268,341.20		
Pipeline network project for Jilin Province Hongfu Real Estate Development Company Limited* (吉林省弘富房地產開發有限責任公司管網工程)		582,795.89	582,795.89		
Pipeline network project for Changchun Baoxin Real Estate Development Co., Ltd.* (長春市寶新房地產開發有限公司管網工程)		1,090,632.40	1,090,632.40		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (I) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Pipeline network project for Changchun Wanlong Runde Real Estate Development Co., Ltd.* (長春市萬龍潤德房地產開發有限公司管網工程)		1,083,604.10	1,083,604.10		
Heat supply project for Changchun Jingyue Investment Holding (Group) Co., Ltd.* (長春淨月投資控股(集團)有限公司供熱工程)		560,080.44	560,080.44		
Heat supply project for Changchun Hongxin Pharmaceutical Technology Co., Ltd.* (長春鴻鑫藥業科技有限公司供熱工程)		345,863.74	345,863.74		
Dongling — New construction project for Jiayuan Road extension (東嶺一家苑路支綫新建工程)		6,425,941.62	6,425,941.62		
Kuancheng — Heat supply project for Changchun Taishida Real Estate Development Co., Ltd.* (寬城—長春市泰仕達房地產開發有限公司供熱工程)		752,364.23	752,364.23		
Smart control system upgrade project (智能控制系統升級項目)		2,818,987.55	2,818,987.55		
Automatic backwash project for Canlian Station of Kuancheng Division (寬城事業部殘聯站自動反沖洗項目)		34,823.01	34,823.01		
Pipeline network project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Hualian Estate (長春市天宇瑞邦節能科技有限公司華聯小區管網工程)		272,151.66	272,151.66		
Heat supply project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Xisan 50 (長春市天宇瑞邦節能科技有限公司西三50供熱工程)		385,457.62	385,457.62		
Heat supply project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Hualian Estate (長春市天宇瑞邦節能科技有限公司華聯小區供熱工程)		510,983.52	510,983.52		
Heat supply project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Ziqiang Estate (長春市天宇瑞邦節能科技有限公司自強小區供熱工程)		332,389.76	332,389.76		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (I) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Replacement of heat metres for certain pumping stations (部分泵站更換熱量表)		871,017.76	871,017.76		
Heat Metres and transmission installation in extension pipelines (支綫熱量表及傳輸安裝)		117,867.71	117,867.71		
Heat supply project for Changchun Chengdu Culture Communication Co., Ltd.* (長春程度文化傳播有限公司供熱工程)		387,473.07	387,473.07		
Heat supply project for Baoyu Yuelanwan Phase I* (寶裕悅蘭灣一期供熱工程)		1,567,491.47	1,567,491.47		
Pipeline network project for Changchun Hongxin Pharmaceutical Technology Co., Ltd* (長春鴻鑫藥業科技有限公司管網工程)		434,895.21	434,895.21		
Heat supply project for Changchun Wanxing Tianyao Real Estate Development Co., Ltd.* (長春市萬星天耀房地產開發有限公司供熱工程)		918,875.18	918,875.18		
Primary network project for the Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳一次網工程)		325,665.14	325,665.14		
Pipeline network project for Lanxi Academy of Jilin Province Hongfu Real Estate Development Company Limited* (吉林省弘富房地產開發有限責任公司(蘭溪學府)管網工程)		1,029,584.43	1,029,584.43		
Smart control system installation for certain pumping stations (部分泵站新裝智能控制系統)		796,718.89	796,718.89		
Pipeline network project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Ziqiang Estate (長春市天宇瑞邦節能科技有限公司自強小區管網工程)		85,595.76	85,595.76		
Heat supply project for Jilin Province Hongfu Real Estate Development Company Limited* (吉林省弘富房地產開發有限責任公司供熱工程)		1,780,546.78	1,780,546.78		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Heat supply project for Changchun Wanlong Runde Real Estate Development Co., Ltd.* (長春市萬龍潤德房地產開發有限公司供熱工程)		547,538.84	547,538.84		
Heat metres installation for certain pumping stations (部分泵站新裝熱量表)		81,464.61	81,464.61		
Erdao — Pipeline network project for No. 2 Cogeneration Plant (batch 2) (Jisheng Line network connection project) (二道—熱電二廠管網工程(第二批)(吉盛綫聯網工程))		617,615.78	617,615.78		
Kuancheng — Pipeline network project for Jilin Province Lixin Real Estate Development Co., Ltd.* (寬城—吉林省力新房地產開發有限公司管網工程)		91,398.02	91,398.02		
Pipeline network project for Changchun Baofengge Real Estate Development Co., Ltd.* (Golden World Bay) (長春寶豐閣房地產開發有限公司(金色世界灣)管網工程)		191,937.24	191,937.24		
Pipeline network project for No. 2 Cogeneration Plant (Yueyang Street and Dongdian Yuan section) (熱電二廠管網工程(岳陽街至東電院段管網工程))		3,039,535.75	3,039,535.75		
Pipeline network project for No. 2 Cogeneration Plant (Mudan Street section of phase I main pipeline project no. 2020-1) (熱電二廠管網工程(一期主幹綫2020-1 段管網工程牡丹街段))		1,301,600.53	1,301,600.53		
Kuancheng — Pipeline network project for Changchun Taishida Real Estate Development Co., Ltd.* (寬城—長春市泰仕達房地產開發有限公司管網工程)		231,507.82	231,507.82		
Pipeline network project for Changchun Jingyue Investment Holding (Group) Co., Ltd.* (長春淨月投資控股(集團)有限公司管網工程)		1,871,547.25	1,871,547.25		
Pipeline network project for No. 2 Cogeneration Plant (batch 2) (Fu'an and Hongsheng Line network connection project) (熱電二廠管網工程(第二批)(福安·宏盛綫聯網工程))		446,790.03	446,790.03		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Opening balance	Increase during the current period	Transferred to fixed assets during the current period	Other decrease during the current period	Closing balance
Pipeline network project for No. 2 Cogeneration Plant (DN500 pipeline network in Erdao South Line) (熱電二廠管網工程(二道南線DN500管網工程))		1,825,026.83	1,825,026.83		
Pipeline network project for No. 2 Cogeneration Plant (Renovation of partial DN500 pipeline network of phase I of extension no. 6 on Tongde Section from Hongqi No. 2 Alley to Guangji District No. 8) (熱電二廠管網工程(一期六支線同德路段紅旗二胡同至光機八區DN500部分管網改造))		639,000.00	639,000.00		
Erdao — Pipeline network project for No. 2 Cogeneration Plant (Dongsheng North-South Line expansion) (二道—熱電二廠管網工程(東盛南北線擴容))		877,246.61	877,246.61		
Wanlong Area B heat exchange station (萬龍B區換熱站)		968,808.49			968,808.49
Wanlong Area A heat exchange station (萬龍A區換熱站)		933,995.59			933,995.59
Wanlong Yinhe heating line (萬龍銀河熱力幹線)		6,552,167.96			6,552,167.96
Xinxingyu heating line (新星宇熱力幹線)		15,203,298.39			15,203,298.39
Xinxingyu heat exchange station (新星宇換熱站)		962,373.29			962,373.29
Hengtao heat connector (恒濤熱力接引)		143,563.46			143,563.46
Smart heat supply management platform (智慧供熱管理平台)		61,008.85			61,008.85
Runde pipeline connector (潤德管線接引)		1,941.75			1,941.75
Plot BGH heat exchange station (BGH地塊換熱站)		1,093,268.23			1,093,268.23
Plot C heat exchange station (C地塊換熱站)		113,291.14			113,291.14
Qingyifang primary network (青怡坊一次網)		146,748.01			146,748.01
Qingyifang secondary network (青怡坊二次網)		292,277.10			292,277.10
Total		71,907,662.20	45,434,919.94		26,472,742.26

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which: Interest capitalised during the current period	Interest capitalisation rate for the period (%)	Source of fund
Pipeline network project for Jilin Province Chuncheng Biomass Power Co., Ltd.* in Mishazi Laojie (吉林省春城生物質能源有限公司米沙子老街管網工程)	18.00	100%	100%				Self-financing
Pipeline network project for agricultural and forestry biomass heat supply, peak regulation, heat source construction and water capacity enhancement in Yilong Station — supply and drainage (德惠市米沙子鎮農林生物質供熱調峰熱源建設水增容—龍站管網工程—給排水)	9.50	100%	100%				Self-financing
Pipeline network project for agricultural and forestry biomass heat supply, peak regulation, heat source construction and water capacity enhancement in heat exchange station for Fuyang Hospital (德惠市米沙子鎮農林生物質供熱調峰熱源建設水增容福陽醫院換熱站管網工程)	36.00	100%	100%				Self-financing
Pipeline network project for agricultural and forestry biomass heat supply, peak regulation, heat source construction and water capacity enhancement in Jinpeng heat exchange station — supply and drainage (德惠市米沙子鎮農林生物質供熱調峰熱源建設水增容金鵬換熱站管網工程—給排)	66.15	100%	100%				Self-financing
Fuhao — Heat metre replacement project of Fuhao Business Division (2020) (富豪—富豪事業部熱量表更換工程(2020))	8.80	100%	100%				Self-financing
Fuhao — 2# heat exchanger replacement project in Songhui Station of Fuhao Business Division (2020) (富豪—富豪事業部松輝站2#換熱器更換工程(2020))	7.36	88%	100%				Self-financing

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which:	Interest capitalisation rate for the period (%)	Source of fund
					Interest capitalised during the current period		
Jianguan — Heat supply project in Jilin Communications Polytechnic (2020) (建管—吉林交通職業技術學院供熱工程(2020))	35.43	67%	100%				Self-financing
Balance control project for residential and non-residential building (2020) (居民與非居民建築平衡控制工程(2020))	61.24	88%	100%				Self-financing
Information Department — Audit project for Yatai's auto-control system (2020) (信息部—亞泰自控系統審計項目(2020))	88.07	90%	100%				Self-financing
Yongchun — Circulation pump replacement project for Xisi heat exchange station of Yongchun Business Division (2020) (永春—永春事業部西四換熱站循環泵更換工程(2020))	6.06	88%	100%				Self-financing
Dongling — Heat supply project for Xinxingyu's Nanxi Mansion Phase I* (東嶺—新星宇南熙府一期供熱工程)	247.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant (Hongqi Street extension) (熱電二廠管網工程(紅旗街支綫))	230.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant (pipeline network project phase I of extension no. 2 over Min Kang Road) (熱電二廠管網工程(一期二支綫過民康路段管網工程))	40.00	100%	100%				Self-financing
Nanguan — Pipeline network project for No. 2 Cogeneration Plant — pipeline network project phase I of extension no. 2 (municipal extension pipelines) over Min Kang Road (南關—熱電二廠管網工程—一期二支綫市委綫過民康路段管網工程)	25.00	100%	100%				Self-financing



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB'10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which:	Interest capitalisation rate for the period (%)	Source of fund
					Interest capitalised during the current period		
Jing'er — Pipeline network project for Changchun Chengdu Culture Communication Co., Ltd.* (淨二—長春程度文化傳播有限公司管網工程)	118.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant — Phase I main pipeline project for Provincial People's Congress (熱電二廠管網工程—一期主幹線省人大管網工程)	240.00	100%	100%				Self-financing
Jing'er — Pipeline network project for Baoyu Yuelanwan Phase II* (淨二—寶裕悅蘭灣二期管網工程)	300.00	100%	100%				Self-financing
Pipeline network project for Changchun Wanxing Tianyao Real Estate Development Co., Ltd.* (長春市萬星天耀房地產開發有限公司管網工程)	51.10	100%	100%				Self-financing
Pipeline network project for Jilin Province Hongfu Real Estate Development Company Limited* (吉林省弘富房地產開發有限公司管網工程)	70.00	100%	100%				Self-financing
Pipeline network project for Changchun Baoxin Real Estate Development Co., Ltd.* (長春市寶新房地產開發有限公司管網工程)	216.00	100%	100%				Self-financing
Pipeline network project for Changchun Wanlong Runde Real Estate Development Co., Ltd.* (長春市萬龍潤德房地產開發有限公司管網工程)	159.00	100%	100%				Self-financing
Heat supply project for Changchun Jingyue Investment Holding (Group) Co., Ltd.* (長春淨月投資控股(集團)有限公司供熱工程)	89.50	100%	100%				Self-financing
Heat supply project for Changchun Hongxin Pharmaceutical Technology Co., Ltd.* (長春鴻鑫藥業科技有限公司供熱工程)	65.00	100%	100%				Self-financing
Dongling — New construction project for Jiayuan Road extension (東嶺—家苑路支線新建工程)	900.00	100%	100%				Self-financing
Kuancheng — Heat supply project for Changchun Taishida Real Estate Development Co., Ltd.* (寬城—長春市泰仕達房地產開發有限公司供熱工程)	147.00	100%	100%				Self-financing

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB'10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which:	Interest capitalisation rate for the period (%)	Source of fund
					Interest capitalised during the current period		
Smart control system upgrade project (智能控制系統升級項目)	600.00	100%	100%				Self-financing
Automatic backwash project for Canlian Station of Kuancheng Division (寬城事業部殘聯站自動反沖洗項目)	8.00	100%	100%				Self-financing
Pipeline network project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Hualian Estate (長春市天宇瑞邦節能科技有限公司華聯小區管網工程)	167.00	100%	100%				Self-financing
Heat supply project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Xisan 50 (長春市天宇瑞邦節能科技有限公司西三50供熱工程)	74.30	100%	100%				Self-financing
Heat supply project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Hualian Estate (長春市天宇瑞邦節能科技有限公司華聯小區供熱工程)	167.00	100%	100%				Self-financing
Heat supply project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Ziqiang Estate (長春市天宇瑞邦節能科技有限公司自強小區供熱工程)	105.00	100%	100%				Self-financing
Replacement of heat metres for certain pumping stations (部分泵站更換熱量表)	249.00	100%	100%				Self-financing
Heat Metres and transmission installation in extension pipelines (支線熱量表及傳輸安裝)	74.00	100%	100%				Self-financing
Heat supply project for Changchun Chengdu Culture Communication Co., Ltd.* (長春程度文化傳播有限公司供熱工程)	118.00	100%	100%				Self-financing
Heat supply project for Baoyu Yuelanwan Phase I* (寶裕悅蘭灣一期供熱工程)	254.00	100%	100%				Self-financing
Pipeline network project for Changchun Hongxin Pharmaceutical Technology Co., Ltd.* (長春鴻鑫藥業科技有限公司管網工程)	85.00	100%	100%				Self-financing
Heat supply project for Changchun Wanxing Tianyao Real Estate Development Co., Ltd.* (長春市萬星天耀房地產開發有限公司供熱工程)	170.00	100%	100%				Self-financing

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB'10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which:	Interest capitalisation rate for the period (%)	Source of fund
					Interest capitalised during the current period		
Primary network project for the Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳一次網工程)	50.00	100%	100%				Self-financing
Pipeline network project for Lanxi Academy of Jilin Province Hongfu Real Estate Development Company Limited* (吉林省弘富房地產開發有限公司(蘭溪學府)管網工程)	265.00	100%	100%				Self-financing
Smart control system installation for certain pumping stations (部分泵站新裝智能控制系統)	260.00	100%	100%				Self-financing
Pipeline network project for Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.* in Ziqiang Estate (長春市天宇瑞邦節能科技有限公司自強小區管網工程)	25.00	100%	100%				Self-financing
Heat supply project for Jilin Province Hongfu Real Estate Development Company Limited* (吉林省弘富房地產開發有限公司供熱工程)	714.10	100%	100%				Self-financing
Heat supply project for Changchun Wanlong Runde Real Estate Development Co., Ltd.* (長春市萬龍潤德房地產開發有限公司供熱工程)	162.00	100%	100%				Self-financing
Heat metres installation for certain pumping stations (部分泵站新裝熱量表)	35.00	100%	100%				Self-financing
Erdao — Pipeline network project for No. 2 Cogeneration Plant (batch 2) (Jisheng Line network connection project) (二道一熱電二廠管網工程(第二批)(吉盛綫聯網工程))	65.00	100%	100%				Self-financing
Kuancheng — Pipeline network project for Jilin Province Lixin Real Estate Development Co., Ltd.* (寬城—吉林省力新房地產開發有限公司管網工程)	13.30	100%	100%				Self-financing
Pipeline network project for Changchun Baofengge Real Estate Development Co., Ltd.* (Golden World Bay) (長春寶豐閣房地產開發有限公司(金色世界灣)管網工程)	204.00	100%	100%				Self-financing

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (1) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB'10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which: Interest capitalised during the current period	Interest capitalisation rate for the period (%)	Source of fund
Pipeline network project for No. 2 Cogeneration Plant (Yueyang Street and Dongdian Yuan section) (熱電二廠管網工程(岳陽街至東電院段管網工程))	838.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant (Mudan Street section of phase I main pipeline project no. 2020-1) (熱電二廠管網工程(一期主幹線2020-1段管網工程牡丹街段))	626.00	100%	100%				Self-financing
Kuancheng — Pipeline network project for Changchun Taishida Real Estate Development Co., Ltd.* (寬城—長春市泰仕達房地產開發有限公司管網工程)	92.00	100%	100%				Self-financing
Pipeline network project for Changchun Jingyue Investment Holding (Group) Co., Ltd.* (長春淨月投資控股(集團)有限公司管網工程)	250.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant (batch 2) (Fu'an and Hongsheng Line network connection project) (熱電二廠管網工程(第二批)(福安、宏盛線聯網工程))	48.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant (DN500 pipeline network in Erdao South Line) (熱電二廠管網工程(二道南線DN500管網工程))	200.00	100%	100%				Self-financing
Pipeline network project for No. 2 Cogeneration Plant (Renovation of partial DN500 pipeline network of phase I of extension no. 6 on Tongde Section from Hongqi No. 2 Alley to Guangji District No. 8) (熱電二廠管網工程(一期六支線同德路段紅旗二胡同至光機八區DN500部分管網改造))	70.00	100%	100%				Self-financing
Erdao — Pipeline network project for No. 2 Cogeneration Plant (Dongsheng North-South Line expansion) (二道—熱電二廠管網工程(東盛南北線擴容))	93.00	100%	100%				Self-financing
Wanlong Area B heat exchange station (萬龍B區換熱站)	116.00	83.52%	95.00%				Self-financing

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 15. Construction-in-progress (Continued)

#### (I) Construction-in-progress (Continued)

#### 2. Movements in material construction-in-progress during the current period (Continued)

Name of the construction project	Budget (RMB'10'000)	Percentage of input over budget (%)	Construction progress (%)	Accumulated amount of interest capitalised	Of which: Interest capitalised during the current period	Interest capitalisation rate for the period (%)	Source of fund
Wanlong Area A heat exchange station (萬龍A區換熱站)	120.00	77.83%	95.00%				Self-financing
Wanlong Yinhe heating line (萬龍銀河熱力幹線)	763.53	98.38%	98.00%				Self-financing
Xinxingyu heating line (新星宇熱力幹線)	3,751.00	43.38%	50.00%				Self-financing
Xinxingyu heat exchange station (新星宇換熱站)	111.69	86.16%	90.00%				Self-financing
Hengtiao heat connector (恒濤熱力接引)	33.81	47.60%	90.00%				Self-financing
Smart heat supply management platform (智慧供熱管理平台)	29.00	21.04%	20.00%				Self-financing
Runde pipeline connector (潤德管線接引)	121.77	0.16%	5.00%				Self-financing
Plot BGH heat exchange station (BGH地塊換熱站)	147.67	74.03%	95.00%				Self-financing
Plot C heat exchange station (C地塊換熱站)	89.45	12.67%	20.00%				Self-financing
Qingyifang primary network (青怡坊一次網)	49.20	29.83%	20.00%				Self-financing
Qingyifang secondary network (青怡坊二次網)	88.63	32.98%	20.00%				Self-financing

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 15. Construction-in-progress (Continued)

(II) Construction materials

Item	Closing balance		Carrying amount	Opening balance		Carrying amount
	Carrying balance	Provision for impairment		Carrying balance	Provision for impairment	
Materials for construction	11,505,817.63	3,971,185.47	7,534,632.16	12,566,010.79	3,971,185.47	8,594,825.32
Equipment not yet installed	2,686,256.93	2,401,240.36	285,016.57	2,693,878.18	2,401,240.36	292,637.82
Equipment for construction	219,636.01		219,636.01	219,636.01		219,636.01
Total	14,411,710.57	6,372,425.83	8,039,284.74	15,479,524.98	6,372,425.83	9,107,099.15

#### Remark 16. Right-of-use Assets

Item	Leasehold property	Total
I. Original carrying amount		
1. Opening balance	4,620,522.39	4,620,522.39
2. Increase during the current period	235,930.61	235,930.61
Lease	235,930.61	235,930.61
3. Decrease during the current period		
Termination of lease		
4. Closing balance	4,856,453.00	4,856,453.00
II. Accumulated depreciation		
1. Opening balance	2,116,992.41	2,116,992.41
2. Increase during the current period	1,412,437.95	1,412,437.95
Provision for the period	1,412,437.95	1,412,437.95
3. Decrease during the current period		
Transfer		
Decrease due to other reasons		
4. Closing balance	3,529,430.36	3,529,430.36
III. Impairment provision		
1. Opening balance		
2. Increase during the current period		
Provision for the period		
Increase due to other reasons		
3. Decrease during the current period		
Transfer	1,327,022.64	1,327,022.64
4. Closing balance		
IV. Carrying amount		
1. Opening carrying amount	2,503,529.98	2,503,529.98
2. Closing carrying amount	1,327,022.64	1,327,022.64

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 17. Intangible Assets

##### 1. Particulars of intangible assets

Item	Land use right	Patent	Software	Total
I. Original carrying amount				
1. Opening balance	19,992,536.59	49,243.69	4,918,096.79	24,959,877.07
2. Increase during the current period			825,715.40	825,715.40
Addition			529,653.12	529,653.12
Business combination not under common control			296,062.28	296,062.28
Increase due to other reasons				
3. Decrease during the current period	19,933,001.59			19,933,001.59
Disposal				
Disposal of subsidiary				
Decrease due to other reasons	19,933,001.59			19,933,001.59
4. Closing balance	59,535.00	49,243.69	5,743,812.19	5,852,590.88
II. Accumulated amortisation				
1. Opening balance	6,728,870.35	3,693.24	1,213,488.75	7,946,052.34
2. Increase during the current period	10,964.43	4,924.32	639,131.76	655,020.51
Provision for the period	10,964.43	4,924.32	551,377.65	567,266.40
Business combination not under common control			87,754.11	87,754.11
Increase due to other reasons				
3. Decrease during the current period	6,711,868.94			6,711,868.94
Disposal				
Disposal of subsidiary				
Decrease due to other reasons	6,711,868.94			6,711,868.94
4. Closing balance	27,965.84	8,617.56	1,852,620.51	1,889,203.91

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 17. Intangible Assets (Continued)

#### 1. Particulars of intangible assets (Continued)

Item	Land use right	Patent	Software	Total
III. Impairment provision				
1. Opening balance				
2. Increase during the current period				
Provision for the period				
3. Decrease during the current period				
Disposal of subsidiary				
Other transferring out				
4. Closing balance				
IV. Carrying amount				
1. Closing carrying amount	31,569.16	40,626.13	3,891,191.68	3,963,386.97
2. Opening carrying amount	13,263,666.24	45,550.45	3,704,608.04	17,013,824.73

Note 1: On 31 May 2020, Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司), a subsidiary of the Company, transferred physical assets such as land assets, buildings, boiler and equipment and inventories that are related to coal-fired furnaces, as well as debts and liabilities associated with them, to Changchun Heating (Group) Co., Ltd. (長春市熱力(集團)有限責任公司) at no cost.

#### 2. There were no land use rights which have no certificates of title



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 18. Goodwill

#### 1. Original carrying amount of goodwill

Name of investee or item which generated goodwill	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
		Generated from business combination	Disposal	
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	167,112,355.37			167,112,355.37
Total	167,112,355.37			167,112,355.37

Note: In December 2019, goodwill of RMB167,112,355.37 was formed from the combination of Yatai Heating, which was not a combination under common control, by Changchun Heating (Group) Co., Ltd. (長春市熱力(集團)有限責任公司). In December 2020, the Group entered into an equity transfer agreement with Changchun Heating Group for the acquisition of 100% equity interest in Yatai Heating. The Company and Yatai Heating are controlled by Changchun Heating Group before and after the combination and such control is not transitory, therefore, the combination of Yatai Heating by the Company represents a business combination under common control. The increase in the number of subsidiaries or businesses under common control are treated as if the reporting entity of the group formed after the combination had been subsisting as one entity from the time the ultimate controlling party began to exercise control. In preparing the combined statement of financial position, the opening balance of the combined statement of financial position should be adjusted so that goodwill arising from business combinations not under common control exists from the beginning of the current reporting period.

#### 2. Impairment provision for goodwill

Name of investee or item which generated goodwill	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
		Provision	Disposal	
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)				
Total				

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 18. Goodwill (Continued)

3. Information about the asset group or portfolio of asset groups in which goodwill is located

Item	Composition of the asset group or portfolio of asset groups	Recoverable amount of the asset group in which goodwill is located	Method of determination	Whether the asset group or portfolio of asset groups is consistent with the asset group or portfolio of asset groups recognised at the date of purchase and at goodwill impairment testing in previous year
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	Fixed assets, intangible assets and intact goodwill associated with operation	RMB309,858.6 thousand	The recoverable amount of the asset group is estimated based on the higher of its fair value less costs of disposal and the present value of the estimated future cash flows of the asset	Yes

4. The impairment testing for goodwill, key parameters and method of recognizing impairment loss of goodwill

The key assumptions in applying the discounted future cash flow method by the Company:

Name of investee or item which generated goodwill	31 December 2020		
	Growth rate (%)	Gross profit margin (%)	Discount rate (%)
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	1.07	13.56	14.66

The weighted average growth rate used by the management does not exceed the long-term average growth rate of products within the industry in which the Company operates. The management determines the budgeted gross margin based on historical experience and forecasts of market developments and uses a pre-tax rate that reflects the specific risks of the relevant asset group and portfolio of asset groups as the discount rate. The above assumptions are used to analyse the recoverable amount of the portfolio of asset groups.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 19. Long-term Deferred Expenditures

Item	Opening balance	Increase during the current period	Amortisation during the current period	Decrease during the current period	Closing balance
Property improvement	8,774,816.13	29,000.00	3,656,577.24	1,821,959.76	3,325,279.13
Land premium		836,518.44	218,222.20		618,296.24
Maintenance fee		3,491,571.12	1,362,759.20		2,128,811.92
Total	8,774,816.13	4,357,089.56	5,237,558.64	1,821,959.76	6,072,387.29

#### Remark 20. Deferred Income Tax Assets and Deferred Income Tax Liabilities

1. Deferred income tax assets before offsetting

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Impairment provision for assets	87,638,031.33	21,232,571.90	71,414,926.09	17,853,731.52
Unrealised profit of internal transactions	9,970,989.55	2,488,789.50	3,086,659.44	771,664.86
Deductible loss	1,868,902.36	467,225.59	309,286.72	77,321.68
Salaries payable	13,800,000.00	3,450,000.00	9,807,794.80	2,451,948.70
Decrease in valuation for business combination not under common control			10,508,308.08	2,627,077.02
Asset-related government grants	40,199,540.96	10,049,885.24	17,398,048.52	4,349,512.13
Total	150,090,804.76	37,688,472.23	112,525,023.65	28,131,255.91

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 20. Deferred Income Tax Assets and Deferred Income Tax Liabilities (Continued)

2. Deferred income tax liabilities before offsetting

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax liabilities	Deductible temporary difference	Deferred income tax liabilities
Increase in valuation for business combination not under common control	229,639,354.25	42,122,859.33	250,835,197.87	37,625,279.68
Fair value change			2,665,407.00	399,811.05
Total	229,639,354.25	42,122,859.33	253,500,604.87	38,025,090.73

3. Breakdown of unrecognised deferred income tax assets

Item	Closing balance	Opening balance
Deductible loss	528,921.72	3,861,841.24
Total	528,921.72	3,861,841.24

4. Deductible losses on unrecognised deferred income tax assets that will expire in the following years:

Item	Closing balance	Opening balance
2021		53,272.65
2022		
2023		22,700.69
2024		3,785,867.90
2025	528,921.72	
Total	528,921.72	3,861,841.24

#### Remark 21. Short-term Borrowings

1. Classification of short-term borrowings

Item	Closing balance	Opening balance
Credit borrowings		10,714,622.35
Total		10,714,622.35

2. There were no overdue short-term borrowings outstanding at the end of the period.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 22. Trade Payables

Item	Closing balance	Opening balance
Within 1 year	533,402,464.44	380,263,543.62
1 to 2 years	57,542,454.32	48,125,971.98
2 to 3 years	20,393,328.10	44,465,378.94
3 to 4 years	12,059,398.83	2,538,678.02
4 to 5 years	2,440,876.06	159,233.00
Over 5 years	2,471,181.86	2,311,948.86
Total	628,309,703.61	477,864,754.42

#### 1. Material trade payables aged over one year

Name	Closing balance	Reasons for outstanding or not carried forward
吉林省金龍管業有限公司	4,900,000.00	No settlement was made yet
吉林省恒通保溫材料有限公司	4,876,155.83	No settlement was made yet
河北工大科雅能源科技股份有限公司	4,123,141.85	No settlement was made yet
長春市鼎新鍋爐製造有限責任公司	4,096,400.00	No settlement was made yet
哈爾濱市黑龍江大學電子工程有限責任公司	3,581,266.15	No settlement was made yet
北京市卡姆福科技有限公司	3,426,390.77	No settlement was made yet
Total	25,003,354.60	

### Remark 23. Advances

#### 1. Particulars of advances

Item	Closing balance	Opening balance
Within 1 year	26,666.67	877,828.76
1 to 2 years		
2 to 3 years		
Over 3 years		
Total	26,666.67	877,828.76

### Remark 24. Contract Liabilities

Item	Closing balance	Opening balance
Heat supply	1,442,791,437.37	1,354,405,157.67
Construction, maintenance and design services	10,662,213.14	11,389,630.45
Total	1,453,413,650.51	1,365,794,788.12

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 25. Salaries Payable

##### 1. List of salaries payable

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Short-term salaries	21,901,023.53	195,467,512.40	185,410,501.18	31,958,034.75
Post-employment benefits				
– defined contribution plan		19,496,977.89	19,118,524.41	378,453.48
Termination benefits				
Other benefits mature within 1 year				
Total	21,901,023.53	214,964,490.29	204,529,025.59	32,336,488.23

##### 2. List of short-term salaries

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Wages, bonuses, allowances and subsidies	19,808,806.37	156,185,055.06	146,210,845.27	29,783,016.16
Employee welfare		6,897,157.95	6,897,157.95	
Social insurance	1,250,395.29	11,397,573.45	11,534,256.85	1,113,711.89
Of which: Basic medical insurance	1,253,012.12	10,761,311.43	10,900,611.66	1,113,711.89
Supplemental medical insurance		3,500.00	3,500.00	
Work injury insurance	-581.52	572,566.28	571,984.76	
Maternity insurance	-2,035.31	60,195.74	58,160.43	
Housing provident fund	2,307.00	17,663,805.00	17,608,220.00	57,892.00
Union fund and staff education fund	839,514.87	3,323,920.94	3,160,021.11	1,003,414.70
Other short-term salaries				
Total	21,901,023.53	195,467,512.40	185,410,501.18	31,958,034.75

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 25. Salaries Payable (Continued)

#### 3. Particulars of defined contribution plan

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Basic pension contribution		18,681,844.46	18,319,254.38	362,590.08
Unemployment insurance		815,133.43	799,270.03	15,863.40
Total		19,496,977.89	19,118,524.41	378,453.48

### Remark 26. Tax Payable

Tax item	Closing balance	Opening balance
VAT	27,778,630.76	18,844,605.95
Enterprise income tax	39,497,097.24	38,902,260.43
Individual income tax	260,611.80	217,628.45
City maintenance and construction tax	1,843,305.60	1,507,343.40
Property tax	9,289.33	33,663.50
Education surcharge	1,320,997.15	806,153.65
Mineral resources compensation fee		
Environmental protection tax		553,187.34
Stamp duty	694,834.28	1,053,980.16
Other	34,319.53	616.7
Total	71,439,085.69	61,919,439.58

### Remark 27. Other Payables

Item	Closing balance	Opening balance
Other payables	31,602,945.89	50,833,146.01
Total	31,602,945.89	50,833,146.01

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 27. Other Payables (Continued)

##### (III) Other payables

##### 1. Other payables based on nature of the payments

Nature of the amount	Closing balance	Opening balance
Quality guarantee deposit	15,996.00	182,391.39
Deposit and guarantee	550,297.24	1,118,888.14
Training fee	660.00	
Current account payment	17,129,385.57	28,120,514.28
Rental fee	635,463.83	768,649.97
Insurance	2,059,043.70	2,538,373.43
Fuel	14,000.00	
Utilities	11,109,248.19	11,457,991.99
Tax refund		503.03
Other	88,851.36	1,093,542.37
Service, construction and transportation fee		5,552,291.41
Total	31,602,945.89	50,833,146.01

##### 2. Material trade payables aged over one year

Name	Closing balance	Reasons for outstanding or not carried forward
長春一汽富晟大眾物流有限公司	100,000.00	Deposit
長春市浩宇汽車設備有限公司	62,500.00	Deposit
長春汽車改裝有限責任公司	50,000.00	Deposit
Total	212,500.00	



## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 28. Non-current Liabilities Due within One Year

Item	Closing balance	Opening balance
Long-term salaries payable due within one year		617,117.29
Lease liability due within one year	776,982.33	1,354,720.59
Total	776,982.33	1,971,837.88

#### Remark 29. Other Current Liabilities

Item	Closing balance	Closing balance for previous year
Sales tax to be transferred	5,322,271.63	
Total	5,322,271.63	

#### Remark 30. Lease Liabilities

Item	Closing balance	Opening balance
Leasehold property	695,847.56	1,277,320.09
Total	695,847.56	1,277,320.09

#### Remark 31. Long-term Payables

Item	Closing balance	Opening balance
Long-term payables		46,707,119.29
Special payables	2,775,074.00	5,372,373.00
Total	2,775,074.00	52,079,492.29

Note: The long-term payables in the above table represent long-term payables after deducting special payables.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 31. Long-term Payables (Continued)

#### (I) Long-term payables

##### 1. Classification of long-term payables

Nature of the amount	Closing balance	Opening balance
Asset securitisation financing		46,707,119.29
Less: Long-term payables due within one year		
Total		46,707,119.29

##### 2. Description of long-term payables

Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司), a subsidiary of the Company, financed RMB1,000.00 million through asset securitisation by transferring the right to heating fees from 2016 to 2023 in accordance with the requirements of the relevant contract signed for the asset securitisation. The long-term payables incurred for the operation were apportioned using the effective interest rate method for its finance costs and long-term payables in each accounting period. As of May 2020, the asset securitisation plan had concluded.

#### (II) Special payables

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance	Reason of occurrence
Heating construction	3,004,163.00		2,597,299.00	406,864.00	
Pipeline network reconstruction	2,368,210.00			2,368,210.00	
Total	5,372,373.00			2,775,074.00	

### Remark 32. Long-term Salaries Payable

Item	Closing balance	Opening balance
Post-employment benefits – defined contribution plan	25,690,000.00	19,957,593.01
Long-term termination benefits	2,020,000.00	2,580,010.00
Other long-term benefits		
Less: Undiscounted long-term salaries payable due within one year		617,117.29
Total	27,710,000.00	21,920,485.72

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 32. Long-term Salaries Payable (Continued)

##### 1. Defined contribution plan

##### (1) Movements in present value of obligation of defined contribution plan

Item	Incurred during the current period	Incurred during the previous period
I. Opening balance	19,957,794.79	21,743,593.01
II. Defined contribution costs included in profit or loss for the period	3,580,102.00	-258,000.00
1. Service costs for the period	643,258.00	747,000.00
2. Prior service costs	2,260,000.00	
3. Settlement gain (loss is presented by "-" sign)		-1,747,000.00
4. Net interest	678,844.00	742,000.00
III. Defined contribution costs included in other comprehensive income	2,522,103.21	-517,000.00
1. Actuarial gain (loss is presented by "-" sign)	-680,000.00	-82,000.00
2. Adjustment based on experience	3,202,103.21	-435,000.00
IV. Other movements	370,000.00	1,011,000.00
1. Consideration paid upon settlement		1,011,000.00
2. Benefits paid	370,000.00	
V. Closing balance	25,690,000.00	19,957,593.01

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 32. Long-term Salaries Payable (Continued)

1. Defined contribution plan (Continued)

(2) Net liabilities (net gain) of the defined contribution plan

Item	Incurred during the current period	Incurred during the previous period
I. Opening balance	19,957,794.79	21,743,593.01
II. Defined contribution costs included in profit or loss for the period	3,580,102.00	-258,000.00
III. Defined contribution costs included in other comprehensive income	2,522,103.21	-517,000.00
IV. Other movements	370,000.00	1,011,000.00
V. Closing balance	25,690,000.00	19,957,593.01

(3) Description of the defined contribution plan

In accordance with the Company's policy, the Company is required to pay heating subsidies to retirees and the Company is obliged to continue to pay relevant wages and expenses to employees who retired early.

(4) Material actuarial assumptions on the present value of the defined benefits obligation and results of the sensitivity analysis

Material actuarial assumptions	At the end of the current period	At the end of the previous period
Discount rate (%) – Post-employment benefits	3.75	3.60
Discount rate (%) – Resignation benefits	2.75	2.75
Mortality rate (%)	0.00	0.00
Annual turnover rate (%)	1.00	1.00
Expected growth rate of corporate contributions to social insurance and housing fund (%)	8.00	8.00
Expected growth rate of medical benefits (%)	6.00	6.00

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 33. Estimated Liabilities

Item	Closing balance	Opening balance	Reason of occurrence
Unsettled litigation	350,000.00		
Total	350,000.00		

Description of estimated liabilities:

This unsettled litigation involves 吉林省藝展建築裝飾有限公司 filing a lawsuit against Changchun City Runfeng Construction Installation Engineering Company Limited\* (長春市潤鋒建築安裝工程有限責任公司) over design fees for a construction contract, the court is not currently in session and has not ruled on the case due to flaws in the main evidence of the counterparty. Provision for estimated liabilities was made in full for the subject claim amount.

#### Remark 34. Deferred Income

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance	Reason of occurrence
Asset-related government grants	54,837,101.32	20,019,669.21	19,516,835.16	55,339,935.37	Refer to Table 1
Total	54,837,101.32	20,019,669.21	19,516,835.16	55,339,935.37	

#### 1. Deferred income in relation to government grants

Liability item	Opening balance	Grants increased during the current period	Included in non-operating income during the current period	Included in other income during the current period	Elimination of cost charges during the current period	Add: other changes	Closing balance	Asset- related/ Income- related
Southeastern Power Plant								
Special Funding Grant	1,265,625.00			93,750.00			1,171,875.00	Asset-related
Small boiler grants	42,099,476.32	13,746,771.21	2,380,787.40	2,346,024.45			51,119,435.68	Asset-related
Electric heating subsidy	832,000.00			104,000.00			728,000.00	Asset-related
Job stabilisation subsidy		6,272,898.00		3,952,273.31			2,320,624.69	Asset-related
Environmental subsidies	10,640,000.00		516,666.67		-10,123,333.33			Asset-related
Total	54,837,101.32	20,019,669.21	2,897,454.07	6,496,047.76	-10,123,333.33		55,339,935.37	

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 35. Share Capital

Item	Opening balance	Issuance of new shares	Increase(+)/Decrease(-) during the current period			Sub-total	Closing balance
			Bonus share	Transfer from reserve	Other		
Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	325,500,000.00					325,500,000.00	
Changchun State-owned Capital Investment Operation (Group) Co., Ltd.* (長春市國有資本投資運營(集團)有限公司)	24,500,000.00					24,500,000.00	
Overseas public shareholders (H Shares Listing in Hong Kong)	116,700,000.00					116,700,000.00	
Total	466,700,000.00					466,700,000.00	

Description of movements of share capital:

The Company became a joint stock limited liability company on 30 May 2018 and pursuant to the approval of SASAC Changchun, the equity of the Company amounted to RMB400,000,000.00 was converted into share capital as used in a joint stock limited liability company of RMB350,000,000.00 and capital reserve of RMB50,000,000.00. The registered capital of the Company after the conversion was RMB350,000,000.00, divided into 350,000,000 ordinary shares of RMB1.00 each.

On 24 October 2019, the Company issued a total of 116,700,000 H shares to Hong Kong and overseas investors at a price of HK\$2.35 per H share via initial public offering.

### Remark 36. Capital Reserve

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Capital premium (Share premium)	512,675,671.27		472,635,554.81	40,040,116.46
Other capital reserves	46,500,000.00			46,500,000.00
Total	559,175,671.27		472,635,554.81	86,540,116.46

Description of capital reserve:

In December 2020, the Company entered into an equity transfer agreement with Changchun Heating Group for the acquisition of 100% equity interest in Yatai Heating. The Company and Yatai Heating are controlled by Changchun Heating Group before and after the combination and such control is not transitory, therefore, the combination of Yatai Heating by the Company represents a business combination under common control.

- (1) At an individual entity level, the Company's share of carrying amount in the ownership interest of the combined party (Yatai Heating) in the combined financial statements of the ultimate controlling party (Changchun Heating Group) is recognised as initial investment cost of long-term equity investments. The difference between the initial investment cost of long-term equity investments and the cash paid, the non-cash assets transferred and the carrying amount of the debt assumed, is adjusted in capital reserve (share premium);
- (2) In preparing the comparative statement, the proportionate share of equity acquired from the ultimate controlling party is adjusted retrospectively in accordance with the above principle, and the increase in net assets as a result of the combination is adjusted in capital reserve (share premium) under owners' equity of the comparative statement.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 37. Other Comprehensive Income

Item	Opening balance	Amount before current period	Incurred during the current period						Attributable to minority shareholder after tax	Closing balance
			Less: Transfer to profit or loss during the period that previously included in other comprehensive income	Less: Transfer to retained earnings during the period that previously included in other comprehensive income	Less: Transfer to relevant assets or liabilities from hedging reserves	Less: Income tax expenses	Less: Changes arising from the remeasurement of defined benefit plans carried forward	Less: Transfer to retained earnings during the period that previously included in other comprehensive income		
I. Other comprehensive income that will not be reclassified to profit or loss	1,903,246.11								2,522,103.21	-618,857.10
1. Changes arising from the remeasurement of defined benefit plans	1,903,246.11								2,522,103.21	-618,857.10
Total other comprehensive income	1,903,246.11								2,522,103.21	-618,857.10

### Remark 38. Special Reserve

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Safety production fee	5,147,376.47	2,998,534.64		8,145,911.11
Total	5,147,376.47	2,998,534.64		8,145,911.11

### Remark 39. Surplus Reserve

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Statutory surplus reserve	20,101,026.90	11,176,317.48		31,277,344.38
Total	20,101,026.90	11,176,317.48		31,277,344.38

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 40. Undistributed Profits

Item	Amount	Percentage of withdrawal or appropriation (%)
Undistributed profits before adjustment at the end of the previous period	211,399,956.62	—
Adjustment of total undistributed profits at the beginning of the period (with “+” for increase and “-” for decrease)		—
Undistributed profits after adjustment at the beginning of the period	211,399,956.62	—
Add: Net profit attributable to owners’ equity of the parent company during the current period	165,216,738.96	—
Less: Withdrawal of statutory surplus reserve	11,176,317.48	10%
Dividend payable on ordinary shares	79,339,000.00	
Add: Surplus reserves for making up losses		
Changes arising from defined benefit plans carried forward to retained earnings		
Undistributed profits at the end of the period	286,101,378.10	



## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 41. Operating Income and Operating Costs

##### 1. Operating Income and Operating Costs

Item	Incurred during the current period		Incurred during the previous period	
	Income	Cost	Income	Cost
Principal operating business	1,888,159,313.46	1,583,355,028.82	1,559,936,247.81	1,268,993,862.59
Other businesses	8,789,936.51	6,140,552.71	1,479,143.23	1,083,468.23
Total	1,896,949,249.97	1,589,495,581.53	1,561,415,391.04	1,270,077,330.82

##### 2. Type of income

Contract category	Incurred during the current period	Incurred during the previous period
Income from heat supply	1,427,832,297.98	960,723,497.99
Of which: Provision and distribution of heat	1,347,567,346.77	894,540,083.27
Pipeline connection fee	65,559,924.44	54,232,508.85
Heat transmission fee	14,705,026.77	11,950,905.87
Income from construction, maintenance and design services	469,116,951.99	600,691,893.05
Of which: Engineering construction	247,252,801.27	366,411,964.57
Engineering maintenance	192,575,093.21	220,774,346.56
Design service	17,781,904.60	9,742,871.89
Instrument maintenance	2,717,216.40	129,956.32
Other	8,789,936.51	3,632,753.71
Total	1,896,949,249.97	1,561,415,391.04

#### Remark 42. Taxes and Surcharges

Item	Incurred during the current period	Incurred during the previous period
City maintenance and construction tax	1,872,773.24	1,527,085.43
Education surcharge	1,367,647.74	1,090,710.61
Property tax	383,597.21	19,725.98
Land use tax	165,853.70	30,608.22
Vehicle and vessel tax	27,066.00	8,493.60
Stamp duty	960,056.13	885,641.20
Local water conservancy construction funds	603,578.04	385,224.91
Flood control and security charge	47,952.14	85,795.39
Employment guarantee for the disabled	66,972.85	135,560.08
Environmental protection tax	488,085.29	
Total	5,983,582.34	4,168,845.42

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 43. Selling Expenses

Item	Incurred during the current period	Incurred during the previous period
Advertisement and promotion expenses		2,422,654.31
Total		2,422,654.31

### Remark 44. Administrative expenses

Item	Incurred during the current period	Incurred during the previous period
Material costs	4,781,352.79	49,549.73
Wage expenses	55,877,015.06	44,583,354.39
Employee benefits costs	3,839,092.67	2,462,663.59
Employee education expenses	522,423.79	493,684.23
Vehicle running costs	1,624,889.40	1,360,738.40
Travel expenses	623,197.60	1,467,737.51
Business expenses	122,052.80	125,032.98
Office expenses	9,015,353.94	5,438,554.18
Labour costs	446,201.42	338,218.92
Service charges	9,603,168.34	12,251,038.50
Depreciation expenses	4,116,487.61	4,537,501.73
Amortisation expenses	684,752.46	538,507.37
Conference expenses	33,793.14	20,735.85
Maintenance expenses	4,176,831.04	6,869,192.09
Communication expenses	38,396.66	10,203.70
Hospitality expenses	11,045.00	14,834.00
Promotion costs	1,517,704.34	458,784.27
Decoration expenses	1,432,500.54	
Fuel and power	5,309.73	
Insurance and provident fund	14,223,959.92	12,785,307.73
Rental fees	1,063,962.59	1,099,008.13
Tendering fees	52,664.22	8,547.17
Party building expenses	489,586.15	5,886.44
Trade union expenses	2,596,936.59	1,815,855.35
Heating expenses	87,615.00	78,722.50
Labour protection expenses	307,435.43	395,412.59
Low-value consumables	128,332.80	63,175.07
Retiree compensation	453,258.00	561,951.46
Other expenses	3,247,297.28	3,642,605.31
Total	121,122,616.31	101,476,853.19

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 45. Research and Development Expenses

Item	Incurred during the current period	Incurred during the previous period
Materials	271,832.83	
Processing costs		
Wage expenses	4,063,982.77	1,856,673.23
Travel and transportation expenses		50,587.66
Service charges	77,168.32	
Depreciation expenses	44,556.62	9,466.46
Amortisation expenses	9,002.64	1,798.40
Outsourcing research and development expenses	2,314,823.87	299,596.99
Other	17,564.37	170,458.64
Total	6,798,931.42	2,388,581.38

### Remark 46. Financial Costs

Item	Incurred during the current period	Incurred during the previous period
Interest expenses	9,872,921.67	4,823,873.85
Less: interest income	11,726,279.54	8,488,914.70
Exchange gain and loss	-2,482,699.81	2,301,201.98
Bank handling fee	403,755.74	16,734.43
Other		
Total	-3,932,301.94	-1,347,104.44

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 47. Other Income

1. Breakdown of other income

<u>Sources of other income</u>	<u>Incurred during the current period</u>	<u>Incurred during the previous period</u>
Government grants	11,589,811.21	16,896,556.75
Additional VAT credit	17,309.81	21,418.96
Surcharge exemption	72,000.00	
Tax refund	459.58	
Total	11,679,580.60	16,917,975.71

2. Government grants included in other income

<u>Item</u>	<u>Incurred during the current period</u>	<u>Incurred during the previous period</u>	<u>Asset-related/ Income-related</u>
Small boiler subsidy (capitalised)	2,346,024.45	2,228,237.07	Asset-related
Small boiler subsidy (expensed)	4,880,711.29	14,470,569.68	Income-related
Amortisation of subsidy for southeastern power plant	93,750.00	93,750.00	Asset-related
Electric heating subsidy	104,000.00	104,000.00	Asset-related
Job stabilisation subsidy (capitalised)	3,952,273.31		Asset-related
Job stabilisation subsidy (expensed)	213,052.16		Income-related
Total	11,589,811.21	16,896,556.75	

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 48. Investment Income

#### 1. Breakdown of investment income

Item	Incurred during the current period	Incurred during the previous period
Dividend income from other equity instruments derecognised during the current period	3,191,921.92	
Gain arising on remeasurement of equity interest at fair value upon obtaining control	4,840,552.65	
Income from financial products	1,000,883.63	
Income from long-term equity investments accounted for under the equity method	1,448,819.21	335,778.74
Total	10,482,177.41	335,778.74

### Remark 49. Gain on Changes in Fair Value

Source of gain arising from changes in fair value	Incurred during the period	Incurred during the previous period
Financial assets at fair value through profit or loss	-2,665,407.00	
Total	-2,665,407.00	

Description of gain on changes in fair value:

According to the “Debt Asset-backed Special Plan for Heat Supply Contracts” (《供熱合同債券資產支持專項計劃》) and the “Asset-backed Securities Subscription Agreement” (《資產支持證券認購協議》) entered into by Dongzheng Ronghui Securities Asset Management Co., Ltd. and Changchun Yatai Heating Co., Ltd.\* (長春亞泰熱力有限責任公司), a subsidiary of the Company, Yatai Heating shall pledge the contractual right to heating fees to Dongzheng Ronghui Securities Asset Management Co., Ltd., whereby Dongzheng Ronghui Securities Asset Management Co., Ltd. shall issue financial product under the special plan for financing purposes. The subordinated interests in the special plan product shall be repurchased by the originator, i.e. Yatai Heating, with a principal amount of RMB50.00 million and no fixed yield. After payment of various fees and repayment of the senior class' principal and interests, the remaining gains and losses shall be borne by the subordinated interests held by the Company. In 2020, the asset securitisation business was early terminated and after repayment of the senior class' principal and interest, the gain on the subordinated securities will be a negative amount of -RMB2,665,407.00.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 50. Credit Impairment Loss

Item	Incurred during the current period	Incurred during the previous period
Bad debt loss	-12,448,589.46	-12,728,804.81
Total	-12,448,589.46	-12,728,804.81

#### Remark 51. Impairment Loss on Assets

Item	Incurred during the current period	Incurred during the previous period
Impairment loss on contract assets	-588,985.71	2,514,129.30
Loss on decline in value of inventories		-2,491,338.42
Impairment loss on fixed assets	-222,744.22	-4,828,518.51
Impairment loss on construction materials		-2,368,338.25
Other	-811,729.93	-7,174,065.88

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 52. Non-operating Income

Item	Incurred during the current period	Incurred during the previous period	Amount included in non-recurring profit or loss of the current period
Social insurance (epidemic exemption)	6,186,261.59		6,186,261.59
Business combination not under common control	9,198,369.51		9,198,369.51
Government grants not related to ordinary activities	4,131,885.07	100,000.00	4,131,885.07
Long outstanding income	204,823.63		204,823.63
Income from damages for breach of contract	1,669,617.60	100,000.00	1,669,617.60
Overdue payment	76,604.89	514,030.06	76,604.89
Other	12,188.09	158,959.37	12,188.09
Total	21,479,750.38	872,989.43	21,479,750.38

1. Government grants included in profit or loss of the current period

Item	Incurred during the current period	Incurred during the previous period	Asset-related/ Income-related
Amortisation of deferred income	2,897,454.07		Asset-related
2020 special government funding	1,000,000.00		Income-related
Collection of grants for being determined as a National High and New Tech Enterprise	200,000.00		Income-related
Heat supply incentive funds	32,401.00		Income-related
Funding support from the Ministry of Commerce for the Second International Import Expo	2,030.00		Income-related
Special grants for science and technology innovation in Jilin Province (Provincial Little Giant (省小巨人))		100,000.00	Income-related
Total	4,131,885.07	100,000.00	

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 53. Non-operating Expenses

Item	Incurred during the current period	Incurred during the previous period	Amount included in non-recurring profit or loss of the current period
External donation		52,300.89	
Loss on destruction and scrapping of non-current assets	2,736.80		2,736.80
Default payments	400,000.00		400,000.00
Other	357,444.98	95,850.69	357,444.98
Total	760,181.78	148,151.58	760,181.78

Description of non-operating expenses: Other amounts represent estimated liabilities provided for an unsettled litigation.

#### Remark 54. Income Tax Expenses

##### 1. Table of income tax expenses

Item	Incurred during the current period	Incurred during the previous period
Income tax expenses for the current period	56,955,364.40	51,801,414.45
Deferred income tax expenses	-17,735,662.83	-5,468,844.39
Total	39,219,701.57	46,332,570.06

##### 2. Reconciliation between accounting profit and income tax expenses

Item	Incurred during the current period
Total profit	204,436,440.53
Income tax expenses calculated at statutory/applicable tax rates	51,109,110.14
Effect of different tax rates applied by subsidiaries	-3,184,960.28
Effect of adjustments to income tax on prior periods	
Effect of non-taxable income	-8,133,233.03
Effect of non-deductible costs, expenses and losses	982,969.25
Effect of deductible loss on utilisation of deferred income tax assets not recognised in the previous period	-579,276.19
Effect of deductible temporary difference or deductible loss on deferred income tax assets not recognised in the current period	132,230.43
Additional deductible expenses under relevant tax law	-1,107,138.75
Income tax expenses	39,219,701.57



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 55. Notes to Statement of Cash Flows

#### 1. Cash received relating to other operating activities

Item	Incurred during the current period	Incurred during the previous period
Government grants	26,370,459.26	26,112,609.00
Interest income from deposits	11,727,742.54	8,153,255.78
Business and individual transactions	358,394,254.40	96,772,072.87
Recovery of guarantee deposit	2,118,774.70	1,442,515.58
Heating fee	273,199,209.18	280,553,245.24
Total	671,810,440.08	413,033,698.47

#### 2. Cash paid relating to other operating activities

Item	Incurred during the current period	Incurred during the previous period
Cash payment charges	35,897,973.06	19,534,645.89
Business units and individual transactions	319,702,993.47	23,608,626.60
Guarantee deposit	5,504,068.36	27,880,478.81
Listing fee	17,655,408.85	66,000,000.00
Total	378,760,443.74	137,023,751.30

#### 3. Cash received relating to other investing activities

Item	Incurred during the current period	Incurred during the previous period
Net cash paid to acquire a subsidiary during the year	13,979,764.46	876,835.78
Total	13,979,764.46	876,835.78

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 55. Notes to Statement of Cash Flows (Continued)

##### 4. Cash paid relating to other investing activities

Item	Incurred during the current period	Incurred during the previous period
Cash payment for business combination	200,000,000.00	
Total	200,000,000.00	

##### 5. Cash received relating to other financing activities

Item	Incurred during the current period	Incurred during the previous period
Related parties transactions		6,297,000.00
Interest on asset securitization	884,055.75	
Total	884,055.75	6,297,000.00

##### 6. Cash paid relating to other financing activities

Item	Incurred during the current period	Incurred during the previous period
Principal and interest on lease liabilities		1,207,417.45
Transaction costs of initial public offering		29,158,640.03
Total		30,366,057.48

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 56. Supplementary Information for Statement of Cash Flows

#### 1. Supplementary information for statement of cash flows

Item	Current period	Previous period
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	165,216,738.96	133,971,381.91
Add: Credit impairment loss	12,448,589.46	12,728,804.81
Impairment provision for assets	811,729.93	7,174,065.88
Depreciation of fixed assets, fuel and gas assets and biological assets	142,491,826.29	90,685,364.75
Amortisation of intangible assets	1,979,704.35	543,225.47
Amortisation of long-term deferred expenditures	5,237,558.64	16,240.00
Loss on disposal of fixed assets, intangible assets and other long-term assets (presented by a "-" sign for gain)		
Loss on scrapped fixed assets (presented by a "-" sign for gain)	2,736.80	
Loss on change in fair value (presented by a "-" sign for gain)	2,665,407.00	
Financial costs (presented by a "-" sign for gain)	12,045,028.61	2,523,279.11
Investment loss (presented by a "-" sign for gain)	-10,482,177.41	-335,778.74
Decrease in deferred income tax assets (presented by a "-" sign for increase)	-9,557,216.32	-5,468,844.39
Increase in deferred income tax liabilities (presented by a "-" sign for increase)	-8,178,446.51	
Decrease in inventories (presented by a "-" sign for increase)	20,294,849.18	-227,046.26
Decrease of operating receivables (presented by a "-" sign for increase)	14,690,140.47	-19,554,032.82
Increase of operating payables (presented by a "-" sign for decrease)	67,261,648.66	52,754,992.95
Other		
Net cash flows from operating activities	416,928,118.11	274,811,652.67
2. Significant investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance lease		
3. Net movement in cash and cash equivalents		
Cash at the end of the period	732,404,368.33	700,816,908.02
Less: cash at the beginning of period	700,816,908.02	358,884,422.15
Add: cash equivalents at end of the period		
Less: cash equivalents at beginning of the period		
Net increase in cash and cash equivalents	31,587,460.31	341,932,485.87

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### Remark 56. Supplementary Information for Statement of Cash Flows (Continued)

2. Net cash paid for acquisition of a subsidiary during the current period

Item	Current period
Cash or cash equivalents paid in the current period for business combination that occurred in the current period	
Of which: Xixing Energy	52,000,000.00
Less: Cash and cash equivalents held by the subsidiary at acquisition date	
Of which: Xixing Energy	65,979,764.46
Add: Cash or cash equivalents paid in the current period for business combination that occurred in prior periods	
Of which: Xixing Energy	
Net cash paid for acquisition of a subsidiary	-13,979,764.46

3. The composition of cash and cash equivalents:

Item	Closing balance	Opening balance
I. Cash	732,404,368.33	700,816,908.02
Of which: Cash on hand		157.95
Bank deposit available for payment at any time	732,404,368.33	700,816,750.07
Other monetary funds available for payment at any time		
Deposits in central banks available for payment		
II. Cash equivalents		
Of which: Bond investment due in three months		
III. Cash and cash equivalents at the end of the period	732,404,368.33	701,816,908.02
Of which: Restricted cash and cash equivalents used by the parent or subsidiaries within the group		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VI. NOTES TO KEY ITEMS IN THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

### Remark 57. Monetary Items in Foreign Currency

1. Monetary items in foreign currency

<u>Item</u>	<u>Closing balance in foreign currency</u>	<u>Exchange rate</u>	<u>Closing balance in RMB</u>
Monetary funds			667,660.91
Of which: Hong Kong dollars	793,323.32	0.8416	667,660.91

### Remark 58. Government Grants

1. Basic information on government grants

<u>Types of government grants</u>	<u>Incurred during the current period</u>	<u>Amount included in profit or loss for the current period</u>	<u>Remark</u>
Government grants included in deferred income	20,019,669.21	9,393,501.83	Refer to Remark 34
Government grants included in other income	5,093,763.45	5,093,763.45	Refer to Remark 47
Government grants included in non-operating income	1,234,431.00	1,234,431.00	Refer to Remark 52
Total	26,347,863.66	15,721,696.28	

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VII. CHANGE OF THE SCOPE OF COMBINATION

### (I) Business Combination not under Common Control

#### 1. Business combination not under common control during the current period

Name of acquiree	Point in time of acquiring the equity interests	Cost of acquiring the equity interests	Percentage of the equity interests acquired (%)	Form of acquisition of equity interests	Acquisition date	Basis of determination at the date of acquisition	Income of the acquiree from the date of acquisition to the end of the period	Net profit of the acquiree from the date of acquisition to the end of the period
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	2020-6-11	RMB52 million	50%	Cash	2020-6-11	Obtain control	45,053,211.29	5,776.70

#### 2. Cost of combination and goodwill

	<b>Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)</b>
<b>Cost of combination</b>	
Cash	52,000,000.00
Fair value of non-cash assets	
Fair value of debt issued or assumed	
Fair value of equity securities issued	
Fair value of contingent consideration	
Fair value of equity interests held prior to the acquisition date as at the date of acquisition	61,198,369.51
Other	
Total cost of combination	113,198,369.51
Less: Fair value of the share of identifiable net assets acquired	122,396,739.02
Goodwill/cost of combination less than fair value of the share of identifiable net assets acquired	-9,198,369.51

- (1) Description of the determination of the fair value of cost of combination, contingent consideration and its movements

The fair value of the non-cash assets in the combination consideration was determined by a valuation from Beijing Huaya Zhengxin Assets Appraisal Co., Ltd using the asset-based approach.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### VII. CHANGE OF THE SCOPE OF COMBINATION (CONTINUED)

#### (I) Business Combination not under Common Control (Continued)

3. Identifiable assets and liabilities of the acquiree at the date of acquisition

Item	Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	
	Fair value at the date of acquisition	Carrying amount at the date of acquisition
Monetary fund	65,979,764.46	65,979,764.46
Trade receivables	12,450,830.46	12,450,830.46
Inventory	3,892,191.33	3,892,191.33
Fixed assets	57,791,736.00	36,825,737.32
Intangible assets	194,690.11	122,090.11
Long-term deferred expenditures	3,666,013.96	3,666,013.96
Deferred income tax assets	374,129.30	374,129.30
Less: Borrowings		
Trade payables	2,725,198.82	2,725,198.82
Salaries payable		
Tax payable		
Dividend payable		
Deferred income tax liabilities	20,386,043.05	
Deferred income		60,505,573.52
Net assets	122,396,739.02	61,238,609.87
Less: Minority interests		
Net assets acquired	122,396,739.02	61,238,609.87

(1) Method of determination for identifiable assets and liabilities

The fair value of the identifiable assets and liabilities of the party being combined was estimated based on the fair value assessment of the assets and liabilities of Jilin Province Xixing Energy Limited\* (吉林省西興能源有限公司) as assessed by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd using the asset-based approach.

4. Gain or loss arising from remeasurement of equity interests held prior to the date of acquisition at fair value

Name of acquiree	Carrying amount of the equity interests originally held prior to the acquisition date as at the date of acquisition	Fair value of the equity interests originally held prior to the acquisition date as at the date of acquisition	Gain or loss arising from the remeasurement of equity interests originally held prior to the acquisition date at fair value	Method of determination and major assumptions for the fair value of the equity interests originally held prior to the acquisition date as at the date of acquisition	Amount of equity interests originally held prior to the acquisition date transferred from other comprehensive income to investment income
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	58,392,006.18	61,198,369.51	4,840,552.65	Asset-based approach; transaction and open market assumptions	0.00
Total	58,392,006.18	61,198,369.51	4,840,552.65		0.00

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VII. CHANGE OF THE SCOPE OF COMBINATION (CONTINUED)

### (II) Business Combination under Common Control

#### 1. Business combination under common control during the current period

Name of acquiree	Proportion of interest acquired in the business combination (%)	Date of combination	Income of the party being combined from the beginning of the period of combination to the date of combination	Net profit of the party being combined from the beginning of the period of combination to the date of combination	Income of the party being combined for the comparative period	Net profit of the party being combined for the comparative period	Remark
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	100	2020-12-31	408,982,033.39	13,522,650.99	404,081,666.98	-79,226,932.09	

(1) Description of the basis on which the transaction constitutes a business combination under common control and the basis for determining the date of combination

On 31 December 2020, the Company entered into an equity transfer agreement with Changchun Heating Group for the acquisition of 100% equity interest in Yatai Heating. The equity transfer price amounted to RMB318,376,300.

The Company and Yatai Heating are controlled by Changchun Heating Group before and after the combination and such control is not transitory, therefore, the combination of Yatai Heating by the Company represents a business combination under common control and the actual controlling party of which is Changchun Heating Group.

As such, the Company retrospectively adjusted the opening balance of the financial statements for 2020 and the relevant financial statements for the corresponding period of the previous year in accordance with the relevant requirements for business combinations under common control. According to the requirements of "ASBE No. 20 – Business Combination", for business combinations involving entities under common control, save for the adjustments made as a result of different accounting policies, the assets and liabilities obtained in a business combination by the acquirer from the acquiree shall be measured at the acquiree's carrying amounts as stated in the combined financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the costs for the combination and the carrying amount of the net assets obtained in the combination shall be adjusted to capital reserve (share premium), and if the balance of capital reserve is insufficient, any excess difference shall be adjusted to retained earnings. In preparing the combined financial statements for the period of combination, adjustments shall be made to the opening balance of the combined statement of financial position and to the relevant items in the comparative statements, as if the reporting entity after combination has been in existence from the point when the control by the ultimate controlling party has commenced. In preparing the comparative financial statements, the relevant assets and liabilities of the acquiree shall be combined, while the increase in net assets as a result of the combination shall be adjusted in the comparative financial statements against the capital reserve (share premium) under owners' equity.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VII. CHANGE OF THE SCOPE OF COMBINATION (CONTINUED)

### (II) Business Combination under Common Control (Continued)

#### 1. Business combination under common control during the current period (Continued)

- (1) Description of the basis on which the transaction constitutes a business combination under common control and the basis for determining the date of combination (Continued)

	<b>Changchun Yatai Heating Co., Ltd.*</b> (長春亞泰熱力有限責任公司)
<b>Cost of combination</b>	
Cash	318,376,300.00
Carrying amount of non-cash assets	
Carrying amount of debt issued or assumed	
Par value of equity securities issued	
Contingent consideration	
Total cost of combination	318,376,300.00

2. The carrying amounts of the assets and liabilities of the party being combined at the date of combination

	<b>Changchun Yatai Heating Co., Ltd.*</b> (長春亞泰熱力有限責任公司)	
<b>Item</b>	<b>Date of combination</b>	<b>At the end of the previous period</b>
Monetary fund	231,092,425.07	1,876,835.78
Trade receivables	72,427,121.57	258,629,571.81
Inventory	298,568.16	18,822,373.61
Other current assets		4,654.20
Other non-current financial assets		52,665,407.00
Investment property	7,830,666.02	8,185,302.86
Fixed assets	215,676,428.77	406,660,887.51
Intangible assets	188,097.35	13,230,488.00
Deferred income tax assets	588,408.24	3,254,322.06
Construction-in-progress	532,988.53	532,988.53
Less: Borrowings		
Trade payables	369,962,324.08	446,505,414.77
Salaries payable	7,239,451.08	73,099.63
Deferred income tax liabilities	22,930,468.85	38,025,090.73
Deferred income	11,695,218.89	22,395,381.60
Net assets	116,807,240.81	256,863,844.63
Less: Minority interests		
Net assets acquired	116,807,240.81	256,863,844.63

### (III) Other Reasons that Resulted in Change of the Scope of Combination

None

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VIII. INTERESTS IN OTHER ENTITIES

### (I) Interests in Subsidiaries

#### 1. Composition of the Group

Name of subsidiary	Registered capital	Place of registration	Nature of business	Shareholding percentage (%)		Form of acquisition
				Direct	Indirect	
Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司)	10,000,000.00	Changchun, Jilin	Maintenance service, installation, repair and maintenance of heating facilities	100		Business combination under common control
Changchun City Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司)	40,000,000.00	Changchun, Jilin	Heat construction works and maintenance works	100		Business combination under common control
Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司)	50,000,000.00	Changchun, Jilin	Production of electricity and heat and heat supply network transmission services	100		Business combination under common control
Jilin Province Heating Engineering Design and Research Company Limited* (吉林省熱力工程設計研究有限責任公司)	5,000,000.00	Changchun, Jilin	Engineering design	100		Business combination under common control
Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱儀錶電氣有限公司)	4,000,000.00	Changchun, Jilin	Apparatus manufacturing and sales	100		Business combination under common control
Jilin Province Chuncheng Biomass Power Co., Ltd.* (吉林省春城生物質能源有限公司)	20,000,000.00	Changchun, Jilin	Application of biomass energy	100		Formation
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	128,700,000.00	Changchun, Jilin	Production, supply and sale of heat	100		Business combination under common control
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	20,000,000.00	Changchun, Jilin	Production, supply and sale of heat	100		Business combination not under common control
Jilin Province Hengxin Electricity Co. Ltd.* (吉林省恒信售電有限公司)	30,000,000.00	Changchun, Jilin	Supply of electricity	100		Business combination not under common control
Jilin Province Hengda New Energy Technology Development Company Limited* (吉林省恒達新能源科技發展有限公司)	5,000,000.00	Changchun, Jilin	Supply of heat, supply of hot water, supply of electricity	100		Business combination not under common control

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### (II) Interests in Joint Arrangements or Associates

#### 1. Material joint ventures or associates

Name of joint ventures or associates	Principal place of operation	Place of registration	Nature of business	Shareholding percentage (%)		Accounting method
				Direct	Indirect	
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	Changchun, Jilin	Changchun, Jilin	Production and supply of electricity and heat	50%		Equity method

#### 2. Major financial information of the material joint venture

Item	As at 31 December 2019/ year ended 2019 Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)
Current Assets	130,291,457.82
Of which: Cash and cash equivalents	82,218,461.96
Non-current assets	61,796,577.41
Total assets	192,088,035.23
Current liabilities	48,004,587.53
Non-current liabilities	28,802,114.57
Total liabilities	76,806,702.10
Minority interests	
Equity attributable to shareholders of the parent company	115,281,333.13
Share of net assets calculated by shareholding proportion	57,640,666.57
Adjustments	
– Goodwill	
– Unrealised profit on internal transactions	
– Other	–79,392.40
Carrying amount of equity investments in joint ventures	57,561,274.17
Fair value of equity investments for which publicly quoted prices exist	
Operating income	79,823,891.01
Financial costs	–133,374.24
Income tax expense	747,915.75
Net profit	671,557.48
Net profit from discontinued operations	
Other comprehensive income	
Total comprehensive income	671,557.48
Dividend received from joint ventures during the current period	

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS

The Company's main financial instruments include monetary funds, equity investments, borrowings, trade receivables, trade payables, etc. The Company may be exposed to all kinds of financial instruments risks in its operating activities, mainly include credit risks, liquidity risks and market risks. The risks in relation to those financial instruments and the risk management policies adopted by the Company to mitigate these risks are set out below:

The Board is responsible for planning and establishing the risk management structure for the Company, and developing risk management policies and the related guidelines across the Company, and supervising the performance of risk management measures. The Company has developed risk management policies to identify and analyze risks exposed to the Company. These risk management policies have clear regulations over specific risks, covering various aspects of market risk, credit risk and liquidity risk. The Company will evaluate the market environment and changes of the Company's operating activities on a regular basis to decide whether to update the risk management policies and systems. The risk management of the Company is carried out by the Risk Management Committee based on the policies as approved by the Board. Risk Management Committee identifies, evaluates and mitigates related risks by working closely with other business divisions of the Company. Internal Audit Department of the Company will review the risk management control and process regularly, and submit the review results to Audit Committee of the Company. The Company spreads the risks of financial instruments through appropriate diversified investment and business portfolio, and mitigates the risk of focusing on any single industry, specific regions or counterparties by way of formulating the corresponding policies for risk management.

#### (I) Credit Risk

Credit risk refers to the risk of financial losses to the Company as a result of the failure of performance of contractual obligations by the counterparties. The management has developed proper credit policies and continuously monitors credit risk exposures.

The Company has adopted the policy of transacting with creditworthy counterparties only. In addition, the Company evaluates the credit qualification of customers and sets up corresponding credit term based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factors such as current market conditions. The Company monitors the balances and recovery of bills and trade receivables, and contract assets on a continual basis. As for bad credit customers, the Company will use the written reminders, shorten the credit term or cancel the credit term to ensure that the Company is free from material credit losses. In addition, the Company reviews the recovery of financial assets on each balance sheet date to ensure adequate expected credit loss provision is made for relevant financial assets.

The Company's other financial assets include monetary funds and other receivables. The credit risk relating to these financial assets arises from the default of counterparties, but the maximum exposure to credit risk is the carrying amount of each financial asset in the balance sheet.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

#### (I) Credit Risk (Continued)

The monetary funds held by the Company are mainly deposited with financial institutions such as state-owned banks and other large and medium-sized commercial banks. The management believes that these commercial banks have a higher reputation and assets, so there is no major credit risk and the Company would not have any significant losses caused by the default by these institutions. The Company's policy is to control the amount deposited with these famous financial institutions based on their market reputation, operating size and financial background, to limit the credit risk amount of any single financial institution.

As a part of its credit risk asset management, the Company assesses the impairment loss of trade receivables and other receivables based on ageing. Trade receivables and other receivables of the Company involves a large number of customers and the ageing information can reflect the solvency and bad debt risk of these customers for trade receivables and other receivables. The Company calculates the historical actual bad debt rate for different ageing periods based on historical data, and takes into account the current and future forecast economic conditions, such as national GDP growth rate, total infrastructure investment, national monetary policy and other forward-looking information to adjust expected loss rate. For long-term trade receivables, the Company conducted reasonable evaluation to the adjusted expected credit loss after comprehensive consideration of the settlement period, the contractual payment period, the financial position of debtors and the economic situation of the debtors' industry, and takes into account the above forward-looking information.

As at 31 December 2020, the carrying amount and expected credit impairment loss of related assets are as follows:

Item	Carrying amount	Impairment provision
Bills receivable	222,510.02	
Trade receivables financing	139,306,649.40	14,052,101.30
Trade receivables	308,826,241.60	41,731,225.64
Other receivables	3,456,160.55	2,017,890.98
Total	451,811,561.57	57,801,217.92

The main customers of the Company are residents living in the respective heat service area and have reliable and good reputation. As such, the Company is of the view that these customers do not have material credit risk. There is no material credit concentration risk as the Company has a broad customer base.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

#### (II) Liquidity Risk

Liquidity risk refers to the risk of fund shortage when the Company performs its obligation by cash payment or settlement through other financial assets. The Company's member entities are responsible for their respective cash flow projections. The Company entered into a credit line banking facilities agreement with its principal banks to provide support for the Company's obligations related to commercial bills. As at 31 December 2020, the Company had bank credit facilities from various domestic banks amounting to RMB500 million, of which RMB0 was utilised.

The heat supply income from the Company's principal business is a one-off fee collected prior to the provision of service and the Company has sufficient cash flow and no risk of shortage of funds.

#### (III) Market Risk

##### 1. Exchange rate risk

The principal place of operation of the Company are located in China and the principal businesses are settled in RMB.

##### 2. Interest rate risk

The interest rate risk of the Company mainly associates with bank borrowings, etc. Floating rate financial liabilities expose the Company to cash flow interest rate risk, while fixed rate financial liabilities expose the Company to fair value interest rate risk. The Company determines the comparative proportion of fixed rate contracts and floating rate contracts based on the then market conditions.

The finance department of the Company constantly monitors the interest rate level of the Company. A rise in the interest level will increase the costs of additional interest-bearing debts and the interest expenses on the Company's outstanding floating rate debts, and may have a material adverse impact on the financial results of the Company. The management will make timely adjustment according to the latest market conditions, such as interest rate swap arrangements to mitigate interest rate risk.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### IX. DISCLOSURE OF RISKS IN RELATION TO FINANCIAL INSTRUMENTS (CONTINUED)

#### (IV) Capital Management

The Group's primary objective in managing its capital is to ensure that it maintains optimal credit ratings and good capital ratios to support its business and maximise value for Shareholders.

The Group manages and adjusts its capital structure in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividends paid to Shareholders or return capital to Shareholders. As at 31 December 2020, there have been no changes to such objectives, policies and procedures.

The Group's strategy is to maintain the net debt to total equity ratio and the gearing ratio at a sound level of capital to support its operations. The key strategies adopted by the Group include, but not limited to, reviewing future cash flow requirements and the ability to repay debt as it falls due, maintaining a reasonable level of available bank financing and adjusting investment plans and financing plans as necessary to ensure that the Group maintains a reasonable level of capital to support its operations.

The Group is not subject to external mandatory capital requirements and monitors its capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as interest-bearing liabilities less cash and cash equivalents. Total capital is calculated as total equity plus net debt as reported in the consolidated statement of financial position.

The Group's gearing ratios are as follows:

Item	Closing balance	Opening balance
Total interest-bearing liabilities	1,472,829.89	13,346,663.03
Less: Cash and cash equivalents	-732,404,368.33	-701,816,908.02
Net cash	-730,931,538.44	-688,470,244.99
Total equity	878,145,892.95	1,264,427,277.37
Total capital	147,214,354.51	575,957,032.38
Gearing ratio	N/A	N/A

Total interest-bearing liabilities consist of short-term borrowings and lease liabilities.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## X. FAIR VALUE

### (I) Financial Instruments Measured at Fair Value

The Company presents the carrying amount of the financial asset instruments measured at fair value on 31 December 2020 at three levels of fair value. When the fair value is generally classified into three levels, it is based on the lowest level among the three levels of the important inputs used in the fair value measurement. The three levels are defined as follows:

Level 1: unadjusted quotations for identical assets or liabilities that can be obtained on the measurement date in an active market;

Level 2: input other than Level 1 inputs that are directly or indirectly observable for underlying assets or liabilities;

Level 2 inputs include: 1) quotations for similar assets or liabilities in an active market; 2) quotations for identical or similar assets or liabilities in an inactive market; 3) observable inputs other than quotations, including observable interest rate and yield curves, implied volatility and credit spreads during normal quotations interval; 4) market-proven inputs, etc.

Level 3: unobservable input of underlying assets or liabilities.

### (II) Fair Value Measurement at the End of the Period

- Continuing fair value measurement

Item	Fair value at the end of the period			Total
	Level 1	Level 2	Level 3	
Held-for-trading financial assets		50,000,000.00	50,000,000.00	
Trade receivables financing		125,254,548.10	125,254,548.10	
Total assets		175,254,548.10	175,254,548.10	

### (III) Basis for Determining the Market Value of Continuing and Non-continuing Level 1 Fair Value Measurement Items

Unadjusted quotations for identical assets or liabilities that can be obtained on the measurement date in an active market.

### (IV) Continuing and Non-continuing Level 2 Fair Value Measurement Items, the Valuation Techniques Adopted and the Qualitative and Quantitative Information of Important Parameters

Inputs other than Level 1 inputs that are directly or indirectly observable for underlying assets or liabilities.

### (V) Continuing and Non-continuing Level 3 Fair Value Measurement Items, the Valuation Techniques Adopted and the Qualitative and Quantitative Information of Important Parameters

For continuing and non-continuing level 3 fair value measurement items, the valuation techniques adopted and the qualitative and quantitative information of important parameters of unlisted investments in equity instruments, the Company considers using a combination of investment cost approach, market multiplier approach and net asset approach to estimate the fair value at the end of the period.



## NOTES TO FINANCIAL STATEMENTS

Year 2020

### X. FAIR VALUE (CONTINUED)

**(VI) Transfers between Levels that Occurred during the Current Period, Reasons for the Transfer, and the Policy for Determining the Point in Time of the Transfer**

None

**(VII) Changes in Valuation Techniques that Occurred during the Current Period and Reasons for the Change**

None

**(VIII) Statements regarding the Best Use of a Non-financial Asset being Different from its Current Use**

None

### XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

**(I) General Information of the Parent Company**

Name of parent company	Place of registration	Nature of business	Registered capital (RMB'000)	Percentage of shareholding in the Company (%)	Percentage of voting right in the Company (%)
Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	No. 998 Nanhu Road, Nanguan District, Changchun City	Heat production service	360,000	69.75	69.75

The ultimate controlling party of the Company is SASAC Changchun.

**(II) For details of the subsidiaries of the Company, please refer to Note VII(I) Interests in Subsidiaries.**

**(III) Particulars of Joint Ventures and Associates of the Company**

For details of the material joint ventures or associates of the Company, please refer to Note VIII(II) Interests in Joint Arrangements or Associates.

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (IV) Particulars of Other Related Parties

Name of other related party	Relationship between other related parties and the Company
LIU Changchun YANG Zhongshi	Chairman and non-executive Director Vice chairman, executive Director and general manager
SHI Mingjun	Executive Director and deputy general manager
XU Chungang	Executive Director, deputy general manager and financial controller
ZHANG Liming	Deputy general manager
LI Yeji	Executive Director
FU Yachen	Independent non-executive Director
POON Pok Man	Independent non-executive Director
WAN Tao	Board secretary and joint company secretary
LEE Chung Shing	Joint company secretary
WANG Yuguo	Independent non-executive Director
WANG Fenghua	Chairman of the Supervisory Committee
ZHANG Wei	Supervisor
WANG Xuejing	Supervisor
LI Xiaoling	Employee representative Supervisor
Jilin Province Heating Group Co., Ltd.* (吉林省熱力集團有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Meihekou Public Utilities Co., Ltd.* (吉林省熱力集團梅河口市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Huinan Public Utilities Co., Ltd.* (吉林省熱力集團輝南縣公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Liaoyuan Public Utilities Co., Ltd.* (吉林省熱力集團遼源市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Baicheng Public Utilities Co., Ltd.* (吉林省熱力集團白城市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Da'an Public Utilities Co., Ltd.* (吉林省熱力集團大安市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Tonghua Public Utilities Co., Ltd.* (吉林省熱力集團通化市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Fusong Public Utilities Co., Ltd.* (吉林省熱力集團撫松縣公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Baishan Public Utilities Co., Ltd.* (吉林省熱力集團白山市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Jilin Public Utilities Co., Ltd.* (吉林省熱力集團吉林市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Heating Group Panshi Public Utilities Co., Ltd.* (吉林省熱力集團磐石市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Chuncheng Security Guarding and Escorting Co., Ltd.* (吉林省春城保安守護押運有限公司)	Entity controlled by same parent company

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (IV) Particulars of Other Related Parties (Continued)

Name of other related party	Relationship between other related parties and the Company
Changre (Yanbianzhou) Public Utilities Group Co., Ltd.* (長熱(延邊州)公用事業集團有限公司)	Entity controlled by same parent company
Jilin Heating Group Yanji Public Utilities Co., Ltd.* (吉熱集團延吉市公用事業有限公司)	Entity controlled by same parent company
Jilin Heating Group Tumen Public Utilities Co., Ltd.* (吉熱集團圖們市公用事業有限公司)	Entity controlled by same parent company
Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司)	Entity controlled by same parent company
Changchun Runfeng Bathhouse Service Co., Ltd.* (長春市潤鋒洗浴服務有限公司)	Entity controlled by same parent company
Changchun Runfeng Gardening and Greening Co., Ltd.* (長春市潤鋒園林綠化有限公司)	Entity controlled by same parent company
Changre Group Jilin Changtie Public Utilities Co., Ltd.* (長熱集團吉林長鐵公用事業有限公司)	Entity controlled by same parent company
Changchun Light Rail Heat Supply Co., Ltd.* (長春市輕軌供熱有限公司)	Entity controlled by same parent company
Changchun Heating Group High and New Tech Heating Co., Ltd.* (長春市熱力集團高新熱力有限公司)	Entity controlled by same parent company
Inner Mongolia Changre Heating Co., Ltd.* (內蒙古長熱熱力有限公司)	Entity controlled by same parent company
Inner Mongolia Chuncheng Heating Service Co., Ltd.* (內蒙古春城熱力服務有限公司)	Entity controlled by same parent company
Changre Group Linjiang Heat Supply Co., Ltd.* (長熱集團臨江市供熱有限公司)	Entity controlled by same parent company
Jilin Province Manjiang Heating Company Limited* (吉林省漫江熱力有限責任公司)	Entity controlled by same parent company
Changchun Xinda Construction Project Management Co., Ltd.* (長春市新達建設項目管理有限公司)	Entity controlled by same parent company
Jilin Province Chuncheng Media Co., Ltd.* (吉林省春城傳媒有限公司)	Entity controlled by same parent company
Jilin Province New Model Pipes Company Limited* (吉林省新型管業有限責任公司)	Associate of parent company
Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司)	Associate of parent company
Jilin Province Smart Equipment Company Limited* (吉林省智能裝備有限責任公司)	Associate of parent company
Jilin Province Xinda Investment Management Co., Ltd. (吉林省新達投資管理有限公司)	Associate of parent company

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

#### (V) Related Party Transactions

1. For the subsidiaries which are controlled by the Company and combined into the combined financial statements, the transactions amongst themselves and that between the Company and them have been eliminated.

2. Related transactions in relation to purchase of goods and receipt of services

Related party	Description of the related party transaction	Incurred during the current period	Incurred during the previous period
Jilin Province New Model Pipes Company Limited* (吉林省新型管業有限責任公司)	Purchase of goods	19,990,796.19	17,528,958.74
Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司)	Purchase of goods	9,993,935.79	
Jilin Province Smart Equipment Company Limited* (吉林省智能裝備有限責任公司)	Purchase of goods		3,982,066.06
Total		29,984,731.98	21,511,024.80

3. Related transactions in relation to sale of goods and provision of services

Related party	Description of the related party transaction	Incurred during the current period	Incurred during the previous period
Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	Sale of goods	22,123.90	11,654.87
Jilin Province Heating Group Jilin Public Utilities Co., Ltd.* (吉林省熱力集團吉林市公用事業有限公司)	Sale of goods	1,807,347.05	
Jilin Province Heating Group Panshi Public Utilities Co., Ltd.* (吉林省熱力集團磐石市公用事業有限公司)	Sale of goods	150,111.86	
Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司)	Sale of goods		1,148.67
Changchun Light Rail Heat Supply Co., Ltd.* (長春市輕軌供熱有限公司)	Provision of services	5,791,488.00	
Inner Mongolia Chuncheng Heating Service Co., Ltd.* (內蒙古春城熱力服務有限公司)	Provision of services	42,413.86	
Jilin Heating Group Tumen Public Utilities Co., Ltd.* (吉熱集團圖們市公用事業有限公司)	Provision of services	1,884,528.92	15,080,800.33
Changre Group Jilin Changtie Public Utilities Co., Ltd.* (長熱集團吉林長鐵公用事業有限公司)	Provision of services	1,417,216.38	1,607,974.05
Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	Provision of services	4,471,377.33	19,770,204.30
Jilin Heating Group Tumen Public Utilities Co., Ltd.* (吉熱集團圖們市公用事業有限公司)	Provision of services	14,403,820.43	
Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司)	Provision of services		1,394,495.41
Total		29,990,427.73	37,866,277.63

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (V) Related Party Transactions (Continued)

#### 4. Particulars of leasing with related party

##### (1) The Company as the lessee

Name of the lessor	Type of leased assets	Rental fee recognized during the current period	Rental fee recognized during the previous period
Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	Property	330,275.24	1,524,583.62
Total		330,275.24	1,524,583.62

#### 5. Amounts due from/to related party

##### (1) Amounts due from related parties to the Company

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Provision for bad debts	Carrying balance	Provision for bad debts
Trade receivables					
	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	17,217,860.38		29,485,538.33	
	Changre Group Jilin Changtie Public Utilities Co., Ltd.* (長熱集團吉林長鐵公用事業有限公司)	1,000,000.00		906,000.00	
	Changchun Light Rail Heat Supply Co., Ltd.* (長春市輕軌供熱有限公司)	39,968,027.22			
	Jilin Province Heating Group Jilin Public Utilities Co., Ltd.* (吉林省熱力集團吉林市公用事業有限公司)	2,526,863.74			
	Jilin Province Heating Group Panshi Public Utilities Co., Ltd.* (吉林省熱力集團磐石市公用事業有限公司)	568,413.03			
	Jilin Heating Group Tumen Public Utilities Co., Ltd.* (吉熱集團圖們市公用事業有限公司)	7,789,153.00			
Other receivables					
	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	94,280.80		10,000.00	
	Inner Mongolia Chuncheng Heating Service Co., Ltd.* (內蒙古春城熱力服務有限公司)	2,176.00			
Prepayments					
	Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司)	7,534,110.00			
	Jilin Province New Model Pipes Company Limited* (吉林省新型管業有限責任公司)	1,699,080.00			

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (V) Related Party Transactions (Continued)

#### 5. Amounts due from/to related party (Continued)

##### (2) Amounts due to related parties from the Company

Item	Related party	Closing balance	Opening balance
Trade payables			
	Jilin Province New Model Pipes Company Limited* (吉林省新型管業有限責任公司)	17,922,015.42	11,629,228.24
	Jilin Province Smart Equipment Company Limited* (吉林省智能裝備有限責任公司)	2,155,867.08	5,104,824.49
	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	118,376,300.00	341,284.40
Other payables			
	Jilin Province Smart Equipment Company Limited* (吉林省智能裝備有限責任公司)		125,090.96
	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司)	1,536,770.37	1,148,402.15
	Jilin Province Heating Group Co. Ltd.* (吉林省熱力集團有限公司)	36,601.00	36,601.00
Contract liabilities			
	Jilin Heating Group Tumen Public Utilities Co., Ltd.* (吉熱集團圖們市公用事業有限公司)	6,053,477.82	7,938,006.74
	Changchun Light Rail Heat Supply Co., Ltd.* (長春市輕軌供熱有限公司)	599,693.79	
	Changre Group Jilin Changtie Public Utilities Co., Ltd.* (長熱集團吉林長鐵公用事業有限公司)	1,327,063.48	886,238.53

#### 6. Remuneration of key management

Item	Incurred during the period	Incurred during the previous period
LIU Changchun	111,230.99	465,337.16
YANG Zhongshi	522,735.35	461,200.16
XU Chungang	415,724.07	312,441.16
SHI Mingjun	476,461.34	415,693.16
ZHANG Liming	326,976.96	244,741.16
LI Yeji	238,399.45	220,280.18
WAN Tao	235,412.66	200,296.55
LI Xiaoling	221,914.61	192,750.37
WANG Yuguo	100,000.00	25,000.00
FU Yachen	100,000.00	25,000.00
POON Pok Man	150,000.00	38,000.00
Total	2,898,855.43	2,600,739.90

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (V) Related Party Transactions (Continued)

#### 6. Remuneration of key management (Continued)

The remuneration of the Directors and Supervisors as disclosed under the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is set out as follows:

Item	Incurred during the current period	Incurred during the previous period
Remuneration	350,000.00	88,000.00
Other emoluments		
Salaries, allowances and benefits in kind	1,762,367.33	1,740,116.28
Retirement scheme contributions	109,310.48	194,704.32
Performance bonuses	114,788.00	90,608.00
Total	2,336,465.81	2,113,428.60

The remuneration of the Directors and Supervisors of the Company for the year ended 31 December 2020 is set out as follows:

Item	Remuneration	Salaries, allowances and benefits in kind	Performance bonuses	Retirement scheme contributions	Total
Executive Director:					
YANG Zhongshi		501,706.15		21,029.20	522,735.35
XU Chungang		394,694.87		21,029.20	415,724.07
SHI Mingjun		455,432.14		21,029.20	476,461.34
LI Yeji		162,782.25	54,588.00	21,029.20	238,399.45
Sub-total		1,514,615.41	54,588.00	84,116.80	1,653,320.21
Non-executive Director:					
LIU Changchun		105,696.99		5,534.00	111,230.99
Sub-total		105,696.99	0.00	5,534.00	111,230.99
Independent non-executive Director:					
WANG Yuguo	100,000.00				100,000.00
FU Yachen	100,000.00				100,000.00
POON Pok Man	150,000.00				150,000.00
Sub-total	350,000.00	0.00	0.00	0.00	350,000.00
Supervisor:					
WANG Fenghua					
WANG Xuejing					
LI Xiaoling		142,054.93	60,200.00	19,659.68	221,914.61
Sub-total		142,054.93	60,200.00	19,659.68	221,914.61
Total	350,000.00	1,762,367.33	114,788.00	109,310.48	2,336,465.81

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

#### (V) Related Party Transactions (Continued)

##### 6. Remuneration of key management (Continued)

The remuneration of the Directors and Supervisors of the Company for the year ended 31 December 2019 is set out as follows:

Item	Remuneration	Salaries, allowances and benefits in kind	Performance bonuses	Retirement scheme contributions	Total
Executive Director:					
YANG Zhongshi		451,022.21		35,256.96	486,279.17
XU Chungang		302,263.21		35,256.96	337,520.17
SHI Mingjun		405,515.21		35,256.96	440,772.17
LI Yeji		163,802.47	47,608.00	28,706.08	240,116.55
Sub-total		1,322,603.10	47,608.00	134,476.96	1,504,688.06
Non-executive Director:					
LIU Changchun		275,441.21		35,256.96	310,698.17
Sub-total		275,441.21	0.00	35,256.96	310,698.17
Independent non-executive Director:					
WANG Yuguo	25,000.00				25,000.00
FU Yachen	25,000.00				25,000.00
POON Pok Man	38,000.00				38,000.00
Sub-total	88,000.00	0.00	0.00	0.00	88,000.00
Supervisor:					
WANG Fenghua					
WANG Xuejing					
LI Xiaoling		142,071.97	43,000.00	24,970.40	210,042.37
Sub-total	0.00	142,071.97	43,000.00	24,970.40	210,042.37
Total	88,000.00	1,740,116.28	90,608.00	194,704.32	2,113,428.60

Note: WANG Yuguo, FU Yachen and POON Pok Man were appointed as independent non-executive Director on 19 August 2019.



# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### (V) Related Party Transactions (Continued)

#### 7. Five highest paid employees

For the year ending 31 December 2020, the five highest paid employees comprise three Directors and two senior executives (2019: four Directors and one senior executive). Details of the remuneration of the Directors and Supervisors are set out in note XII(V) above. Details of the remuneration of the remaining highest paid employees who are neither a Director nor a Supervisor of the Company are as follows:

<u>Item</u>	<u>Incurred during the current period</u>	<u>Incurred during the previous period</u>
Salaries, allowances and benefits in kind	496,395.52	234,563.21
Performance bonuses	85,000.00	
Retirement scheme contributions	42,058.40	35,256.96
Total	623,453.92	269,820.17

The number of highest paid employees who are neither a Director nor a Supervisor and whose remuneration falls within the following bands are as follows:

<u>Band</u>	<u>Number of employees during the current year</u>	<u>Number of employees during the previous year</u>
Nil to HK\$1,000,000	2	1

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XII. SHARE-BASED PAYMENT

None

### XIII. COMMITMENT AND CONTINGENCY

#### (I) Significant Commitment

The Company has no significant commitment which needs to be disclosed.

#### (II) Significant Contingency as at the Balance Sheet Date

The Company has no significant contingency which needs to be disclosed.

### XIV. EVENTS AFTER BALANCE SHEET DATE

#### (I) Significant Non-adjusting Event

The Company has no significant contingency which needs to be disclosed.

#### (II) Particulars of Profit Distribution

Profit or dividend proposed to be distributed

Profit or dividend declared after consideration and approval

#### (III) Description of Other Events subsequent to the Balance Sheet Date:

On 22 February 2021, the Group considered and approved the “Resolution on the Proposed Acquisition of Part of the Equity Interest in Jilin Province Northeast Heating Co., Ltd.\* (吉林省東北供熱有限公司)” (《關於擬收購吉林省東北供熱有限公司部分股權的議案》) at the 23rd interim meeting of the first session of the Board, which agreed to the acquisition 60% equity interests in Jilin Province Northeast Heating Co., Ltd.\* (吉林省東北供熱有限公司). According to an asset appraisal report titled “Zhongkehua Pingbaozi (2021) No. 002” issued by Beijing Zhongkehua Assets Appraisal Co., Ltd, the carrying amounts of the total assets, the total liabilities and the net assets of Northeast Heating were RMB0.00 million, RMB0.00 million and RMB0.00 million respectively, and the value of the entire owners’ equity after valuation under the cost method was RMB0.00 million, with an appraisal value increase of RMB0.00 million, representing an appreciation of 0.00%. On 23 February 2021, the Group entered into an equity transfer agreement with two independent shareholders of Jilin Province Northeast Heating Co., Ltd.\* (吉林省東北供熱有限公司) (“Northeast Heating”) and acquired 60% equity interests in Northeast Heating for RMB0. On 18 March 2021, the Group completed the change of industry and commerce registration procedures with the Market Supervision and Administration Department of Jilin Province.

On 5 February 2021, the China Securities Regulatory Commission’s Jilin branch has given its consent to the filing and registration of the pre-listing tutoring for the proposed A Share listing of the Group. For details, please refer to the announcement of the Group dated 8 February 2021.

On 22 February 2021, the Group considered and approved the “Resolution on the Proposed Establishment of a Wholly-owned Subsidiary and Commencement of Clean Fuel Operation Business” at the 23rd interim meeting of the first session of the Board, which agreed to the establishment of a wholly-owned subsidiary and commencement of clean fuel operation business. On 18 March 2021, the Group established a wholly-owned subsidiary, Jilin Chuncheng Clean Energy Company Limited\* (吉林省春城清潔能源有限責任公司), and completed the business registration procedures with the Market Supervision and Administration Bureau of Changchun City.

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

#### Remark 1. Trade Receivables

1. Disclosure based on classification of provision method for bad debts

Category	Carrying balance		Closing balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts Amount	Proportion of provision (%)	
Trade receivables subjected to provision for ECL on individual basis					
Trade receivables subjected to provision for ECL on portfolio basis	47,848,740.34	100.00	12,229,886.31	25.56	35,618,854.03
Of which: Ageing portfolio	45,503,321.85	95.10	12,229,886.31	26.88	33,273,435.54
Related party portfolio	2,345,418.49	4.90			2,345,418.49
Trade receivables for which the individual amounts are not material but a separate provision for bad debts has been made					
Total	47,848,740.34	—	12,229,886.31	—	35,618,854.03

Classification	Carrying balance		Opening balance		Carrying amount
	Amount	Proportion (%)	Provision for bad debts Amount	Proportion of provision (%)	
Trade receivables subjected to provision for ECL on individual basis					
Trade receivables subjected to provision for ECL on portfolio basis	41,877,134.64	100.00	10,763,362.04	25.70	31,113,772.60
Of which: Ageing portfolio	39,515,049.48	94.36	10,763,362.04	27.24	28,751,687.44
Related party portfolio	2,362,085.16	5.64			2,362,085.16
Trade receivables for which the individual amounts are not material but a separate provision for bad debts has been made					
Total	41,877,134.64	—	10,763,362.04		31,113,772.60

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

### Remark 1. Trade Receivables (Continued)

#### 2. Trade receivables subjected to provision for ECL on portfolio basis

- (1) Heating fee receivable for which provision for bad debts has been made using ageing analysis method

Ageing	Closing balance			Opening balance		
	Carrying balance		Provision for bad debts	Carrying balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year (including the first year)	23,879,611.69	2.62	625,645.83	21,194,162.01	5.11	1,083,021.68
1 to 2 years (including the second year)	2,575,528.22	14.18	365,209.90	2,113,220.79	21.46	453,497.18
2 to 3 years (including the third year)	2,024,195.19	26.75	541,472.21	1,368,824.91	35.67	488,259.85
3 to 4 years (including the fourth year)	1,341,163.00	41.44	555,777.95	701,905.97	71.35	500,809.91
4 to 5 years (including the fifth year)	696,709.77	68.19	475,086.39	484,286.90	86.10	416,971.02
Over 5 years	4,894,121.25	100.00	4,894,121.25	4,473,872.33	100.00	4,473,850.89
Total	35,411,329.12	—	7,457,313.53	30,336,272.91	—	7,416,410.53

- (2) Basic fee receivable for which provision for bad debts has been made using ageing analysis method

Ageing	Closing balance			Opening balance		
	Carrying balance		Provision for bad debts	Carrying balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year (including the first year)	2,729,305.63	11.45	312,505.49	3,314,273.86	7.27	240,947.71
1 to 2 years (including the second year)	1,637,457.48	20.38	333,713.83	1,588,097.09	12.73	202,164.76
2 to 3 years (including the third year)	1,478,287.22	31.98	472,756.25	828,568.22	17.62	145,993.72
3 to 4 years (including the fourth year)	820,670.67	47.99	393,839.85	486,103.62	23.85	115,935.71
4 to 5 years (including the fifth year)	479,730.24	65.29	313,215.87	465,401.88	31.28	145,577.71
Over 5 years	2,946,541.49	100.00	2,946,541.49	2,496,331.90	100.00	2,496,331.90
Total	10,091,992.73	—	4,772,572.78	9,178,776.57	—	3,346,951.51

- (3) Trade receivables for which provision for bad debts has been made using low risk portfolio method

Name of portfolio	Closing balance			Opening balance		
	Carrying balance	Proportion of provision	Provision for bad debts	Carrying balance	Proportion of provision	Provision for bad debts
		(%)			(%)	
Related party portfolio	2,345,418.49			2,362,085.16		
Total	2,345,418.49			2,362,085.16		

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### Remark 1. Trade Receivables (Continued)

3. Particulars of the top five trade receivables at the end of the period

<u>Name</u>	<u>Closing balance</u>	<u>Percentage to the closing balance of trade receivables (%)</u>	<u>Provision for bad debts made</u>
Aggregate closing balance of top five trade receivables	18,479,926.41	38.62	422,724.10

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### Remark 2. Other Receivables

Item	Closing balance	Opening balance
Interest payable		
Dividend payable		
Other receivables	153,818,846.48	86,614,377.10
Total	153,818,846.48	86,614,377.10

#### (I) Other receivables

##### 1. Disclosure of other receivables based on ageing

Ageing	Closing balance	Opening balance
Within 1 year	123,636,511.12	46,370,966.97
1 to 2 years	8,213,582.51	40,291,895.47
2 to 3 years	22,032,375.11	
3 to 4 years		
4 to 5 years		
Over 5 years		
Sub-total	153,882,468.74	86,662,862.44
Less: Provision for bad debts	63,622.26	48,485.34
Total	153,818,846.48	86,614,377.10

##### 2. Classification by nature of the receivables

Nature of the amount	Closing balance	Opening balance
Petty money	551,885.73	284,073.33
Current account payment	153,330,583.01	86,378,789.11
Total	153,882,468.74	86,662,862.44

##### 3. Disclosure based on three stages of financial asset impairment

Item	Closing balance		Carrying amount	Opening balance		Carrying amount
	Carrying balance	Provision for bad debts		Carrying balance	Provision for bad debts	
Stage one	153,882,468.74	63,622.26	153,818,846.48	86,662,862.44	48,485.34	86,614,377.10
Stage two						
Stage three						
Total	153,882,468.74	63,622.26	153,818,846.48	86,662,862.44	48,485.34	86,614,377.10

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### Remark 2. Other Receivables (Continued)

(l) Other receivables (Continued)

4. Particulars of provision for bad debts of other receivables

<u>Provision for bad debts</u>	<u>Stage one 12-months ECL</u>	<u>Stage two Lifetime ECL (not credit impaired)</u>	<u>Stage three Lifetime ECL (credit impaired)</u>	<u>Total</u>
Opening balance	48,485.34			48,485.34
Opening balance during the current period which:				
– transferred to stage two				
– transferred to stage three				
– reversed to stage two				
– reversed to stage one				
Provision in the current period	15,136.92			15,136.92
Reversal in the current period				
Charge-off in the current period				
Written-off in the current period				
Other changes				
Closing balance	63,622.26			63,622.26

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### Remark 2. Other Receivables (Continued)

(I) Other receivables (Continued)

5. Particulars of the top five other receivables at the end of the period

Name	Nature	Closing balance	Ageing	Percentage to the closing balance of other receivables (%)	Closing balance of provision for bad debts
Changchun Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司)	Current account payment	77,000,000.00	1 to 2 years	50.04	
Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司)	Current account payment	66,370,829.07	1 to 3 years	43.13	
Changchun Heating (Group) Engineering Design Co., Ltd.* (長春市熱力(集團)工程設計有限公司)	Current account payment	9,109,178.94	2 to 3 years	5.92	
Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱儀錶電氣有限公司)	Current account payment	766,294.20	2 to 3 years	0.50	
岳晨昊	Petty money	180,000.00	RMB50,000.00 due within 1 year, RMB130,000.00 due in 1 to 2 years	0.13	49,249.83
Total	-	153,426,302.21		99.72	49,249.83



## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### Remark 3. Long-term Equity Investments

Item	Opening balance	Increase during the current period	Decrease during the current period	Closing balance
Investments in subsidiaries	144,532,114.02	392,277,413.04		536,809,527.06
Investments in joint ventures	57,561,274.07		57,561,274.07	
Investments in associates				
Sub-total	202,093,388.09	392,277,413.04	57,561,274.07	536,809,527.06
Less: Impairment provision for long-term equity investments				
Total	202,093,388.09	392,277,413.04	57,561,274.07	536,809,527.06

#### 1. Investments in subsidiaries

Investee	Initial investment cost	Opening balance	Increase during the current period	Decrease during the current period	Closing balance	Impairment provision during the current period	Closing balance of impairment provision
Changchun Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司)	44,539,689.70	44,539,689.70			44,539,689.70		
Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司)	16,059,516.45	16,059,516.45			16,059,516.45		
Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司)	59,097,018.98	59,097,018.98			59,097,018.98		
Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱儀錶電氣有限公司)	4,022,639.18	4,022,639.18			4,022,639.18		
Jilin Province Heating Engineering Design and Research Company Limited* (吉林省熱力工程設計研究有限責任公司)	5,813,249.71	5,813,249.71			5,813,249.71		
Jilin Province Chuncheng Biomass Power Co., Ltd.* (吉林省春城生物質能源有限公司)	15,000,000.00	15,000,000.00			15,000,000.00		
Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司)	108,357,816.86		108,357,816.86		108,357,816.86		
Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)	318,376,300.00		318,376,300.00	34,456,703.82	283,919,596.18		
Total	571,266,230.88	144,532,114.02	428,768,306.18	34,456,703.82	536,809,527.06		

# NOTES TO FINANCIAL STATEMENTS

Year 2020

## XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

### Remark 3. Long-term Equity Investments (Continued)

#### 2. Investments in associates and joint ventures

Investee	Opening balance	Increase in investments	Decrease in investments	Increase/decrease during the current period	
				Gain or loss on investments recognised under the equity method	Other comprehensive income adjustment
I. Joint venture					
Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司)	57,561,274.07		-56,357,816.86	1,448,819.21	
Sub-total	57,561,274.07		-56,357,816.86	1,448,819.21	
II. Associate					
Sub-total					
Total	57,561,274.07		-56,357,816.86	1,448,819.21	

Investee	Increase/decrease during the current period				Closing balance	Closing balance of impairment provision
	Other equity movements	Cash dividend or profit declared	Impairment provision	Other		
I. Joint venture						
Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司)		-2,652,276.42				
Sub-total		-2,652,276.42				
II. Associate						
Sub-total						
Total		-2,652,276.42				

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XV. REMARKS TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

#### Remark 4. Operating Income and Operating Costs

Item	Incurred during the current period		Incurred during the previous period	
	Income	Cost	Income	Cost
1. Sub-total for principal operating business	986,502,956.79	793,622,475.10	964,236,961.57	768,077,488.64
Heat supply	986,502,956.79	793,622,475.10	964,236,961.57	768,077,488.64
2. Sub-total for other businesses	189,755.35	1,905.12	1,355,066.68	1,175,167.51
Rent and sale of material	189,755.35	1,905.12	1,355,066.68	1,175,167.51
Total	986,692,712.14	793,624,380.22	965,592,028.25	769,252,656.15

#### Remark 5. Investment income

Item	Incurred during the current period	Incurred during the previous period
Income from long-term equity investments accounted for under the equity method	1,448,819.21	335,778.74
Investment income on financial assets at fair value through profit or loss during the period in which they are held	177,013.70	
Total	1,625,832.91	335,778.74

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XVI. SUPPLEMENTAL INFORMATION

#### (I) Breakdown of Non-recurring Profit or Loss for the Period

Item	Amount	Description
Gain or loss on disposal of non-current assets		
Tax rebates and exemptions that were approved by surpassing authority or without official approval documents	459.58	
Government grants included in profit or loss for the period (save for those that were closely related to the business of the Company and were granted on a qualitative or quantitative basis in accordance with the national standard)	8,500,195.74	
Fees charged to non-financial enterprises for the use of state funds included in profit or loss for the period		
Gain arising from the acquisition of subsidiaries, associates and joint ventures where the cost of investment is less than the fair value of the identifiable net assets of the investee at the time the investment is acquired	14,038,922.16	
Gain or loss on exchange of non-monetary assets		
Gain or loss on entrusted investment or management of assets		
Provision for impairment of assets due to force majeure events, such as natural disasters		
Gain or loss on debt restructuring		
Corporate restructuring costs, such as expenses for relocating employees, reorganisation costs, etc.		
Gain or loss in excess of fair value arising from transactions where the transaction price is obviously unfair		
Net profit or loss for the period of a subsidiary arising from business combination under common control from the beginning of the period to the date of combination	13,522,650.99	
Gain or loss arising from contingencies not related to the Company's normal business operations		
Gain or loss on changes in fair value of financial assets held-for-trading and financial liabilities held-for-trading, and investment gains on disposal of financial assets held-for-trading, financial liabilities held-for-trading, debt investments and other debt investments, save for those arising from effective hedging activities that were related to the Company's normal business operations	1,000,883.63	

## NOTES TO FINANCIAL STATEMENTS

Year 2020

### XVI. SUPPLEMENTAL INFORMATION (CONTINUED)

#### (I) Breakdown of Non-recurring Profit or Loss for the Period (Continued)

Item	Amount	Description
Reversal of provision for impairment of receivables separately tested for impairment		
Gain or loss from external entrusted loans		
Gain or loss arising from changes in the fair value of investment properties subsequently measured using the fair value model		
Effect on profit or loss for the period by a one-off adjustment to profit or loss for the period as required by tax, accounting and other laws and regulations		
Custody fee income from trustee operations		
Non-operating income and expenses other than those mentioned above	5,647,000.40	
Other items of profit or loss that meet the definition of non-recurring profit or loss		
Less: Impact of income tax	1,433,108.86	
Impact of minority interests (after tax)		
Total	41,277,003.64	

#### (2) Return on Net assets and Earnings per Share

Profit during the reporting period	Weighted average return rate on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	12.77	0.35	0.35
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.20	0.27	0.27

Jilin Province Chuncheng Heating Company Limited  
15 April 2021

## DEFINITIONS

“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
“ASBEs”	the Accounting Standards for Business Enterprises – Basic Standards (《企業會計準則—基本準則》) issued by the Ministry of Finance and the specific accounting standards for business enterprises, the application guidance for the Accounting Standards for Business Enterprises, the interpretation of Accounting Standards for Business Enterprises and other relevant requirements
“AGM”	the annual general meeting of the Company for the year 2020 to be held on Friday, 28 May 2021 or any adjournment thereof
“Articles” or “Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Board”	the board of Directors of the Company
“Changchun Heating Group”	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
“China” or “PRC”	the People’s Republic of China which, for the purposes of this annual report, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “We”	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司) (stock code: 1853), a company incorporated in the PRC on 23 October 2017 and is a joint stock limited liability company
“Corporate Governance”	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic ordinary share(s) in the Company’s registered capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and held by PRC nationals or PRC incorporated entities, and are not listed or traded on any stock exchange
“Group”	the Company and its subsidiaries
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“heat service area”	gross floor areas covered by heat supply, including both the heat service area which we fully and partially charge for our heat fees
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	the lawful currency of Hong Kong
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited

## DEFINITIONS

“Listing”	the listing of the H Shares of the Company on the Main Board of the Stock Exchange of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“No. 2 Cogeneration Plant”	the subsidiaries and branches held by Datang Jilin Power Generation Co., Ltd.* (大唐吉林發電有限公司), namely Datang Changchun No. 2 Thermoelectricity Limited* (大唐長春第二熱電有限責任公司), Changchun Thermoelectricity Development Company* (長春熱電發展有限公司) (deregistered) and Datang Jilin Power Generation Co., Ltd. Heating Branch* (大唐吉林發電有限公司熱力分公司), which are independent third parties and primarily engaged in power generation/heat generation businesses, and where the context requires, the cogeneration plants operated, individually or collectively, by the above companies
“No.4 Cogeneration Plant”	the wholly-owned subsidiary and branch of Huaneng Jilin Power Generation Co., Ltd.* (華能吉林發電有限公司), namely Huaneng Jilin Energy Sales Co., Ltd.* (華能吉林能源銷售有限公司) and Changchun thermal power plant of Huaneng Jilin Power Generation Co., Ltd.* (華能吉林發電有限公司長春熱電廠), which are independent third parties and primarily engaged in power generation and heat generation businesses, and where the context requires, the cogeneration plants operated, individually or collectively, by the above companies
“No. 5 Cogeneration Plant”	Jilin Electric Power Co., Ltd. Changchun Thermoelectricity Branch* (吉林電力股份有限公司長春熱電分公司), a company principally engaged in electricity supply and heat production and an independent third party
“Pipelines Company”	Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司), a wholly-owned subsidiary of the Company
“Reporting Period”	the period from 1 January 2020 to 31 December 2020
“RMB”	the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 per share
“Shareholder(s)”	the shareholder(s) of the Company
“Supervisor(s)”	the supervisor(s) of the Company
“Three Supplies and Property Management”	heat supply, water supply, electricity supply and property management services
“Xixing Energy”	Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司), previously known as Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司)
“Yatai Heating”	Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司)
“%”	percent
“**”	for identification purposes only

# CORPORATE INFORMATION

## Corporate Information

Name in Chinese: 吉林省春城熱力股份有限公司

Name in English: Jilin Province Chuncheng Heating  
Company Limited\*

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

Headquarter/Principal No. 28, Block B Nanhu Road

Place of Business: Community, No. 998

Nanhu Road, Nanguan  
District, Changchun City,  
Jilin Province, PRC

Place of Business 46/F, Hopewell Centre, 183

in Hong Kong: Queen's Road East,  
Wanchai, Hong Kong

Company's Website: www.cc-tp.com.cn

Email: ccrl-zqb@ccrljt.com

## Information of Shares of the Company

Stock Short Name: CHUNCHENG HEAT

Stock Code: 1853

## Executive Directors

Mr. YANG Zhongshi (*Vice Chairman of the Board*)

Mr. SHI Mingjun

Mr. XU Chungang

Mr. LI Yeji

## Non-executive Director

Mr. LIU Changchun (*Chairman of the Board*)

## Independent Non-executive Directors

Mr. WANG Yuguo

Mr. FU Yachen

Mr. POON Pok Man

## Supervisors

Mr. WANG Fenghua (*Chairman*)

Ms. ZHANG Wei

Ms. LI Xiaoling

## Authorized Representatives

Mr. XU Chungang

Mr. WAN Tao

## Audit Committee

Mr. POON Pok Man (*Chairman*)

Mr. LIU Changchun

Mr. WANG Yuguo

## Remuneration Committee

Mr. FU Yachen (*Chairman*)

Mr. XU Chungang

Mr. POON Pok Man

## Nomination Committee

Mr. WANG Yuguo (*Chairman*)

Mr. YANG Zhongshi

Mr. FU Yachen

## Strategy Committee

Mr. LIU Changchun (*Chairman*)

Mr. SHI Mingjun

Mr. WANG Yuguo

## Joint Company Secretaries

Mr. WAN Tao

Mr. LEE Chung Shing

## H Share Registrar

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre,

183 Queen's Road East, Wan Chai, Hong Kong



## CORPORATE INFORMATION

### Auditor

Da Hua Certified Public Accountants  
Bldg 7, No.16 Xi Si Huan Zhong Road,  
Haidian District, Beijing

### Legal Advisers

as to Hong Kong law:

Lau, Horton & Wise LLP  
In Association with CMS Hasche Sigle,  
Hong Kong LLP  
8th Floor, Nexxus Building,  
41 Connaught Road Central,  
Hong Kong

as to PRC law:

Jilin ZhengJi Law Firm\*  
(吉林正基律師事務所)  
No.1 Fuzhi Road,  
Jingyue Economic Development Zone,  
Changchun City, Jilin Province, PRC

### Compliance Adviser

Messis Capital Limited  
Room 1606, 16/F, Tower 2 Admiralty Centre,  
18 Harcourt Road, Admiralty,  
Hong Kong

### Principal Banks

Jilin Jiutai Rural Commercial Bank (Xinjia Branch)  
Jilin Jiutai Rural Commercial Bank (Jingyue Branch)  
Bank of Jilin Co., Ltd. (Changchun Technology Branch)  
Bank of China Co., Ltd. (Nanhu Road Branch)  
Bank of China Co., Ltd. (Jiefang Road Branch)  
Bank of Communications Co., Ltd. (Chaoyang Branch)  
Bank of Jilin Co., Ltd. (Changchun FAW Branch)  
Industrial and Commercial Bank of China Limited  
(People's Square Branch)