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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in **Jilin Province Chuncheng Heating Company Limited\***, you should at once hand this circular and the form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**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)**

- (1) CONNECTED AND DISCLOSEABLE TRANSACTION:  
ACQUISITION OF ASSETS;**
- (2) CONNECTED AND MAJOR TRANSACTION:  
PROVISION OF THE LOAN; AND**
- (3) NOTICE OF THE SECOND EGM OF 2024**

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



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

A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee is set out on pages 19 to 20 of this circular.

A letter from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 21 to 53 of this circular.

A notice dated 9 December 2024 convening the EGM to be held at 9 a.m. on Tuesday, 24 December 2024 at Conference Room 711, Chuncheng Heating, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC is set out on pages EGM-1 to EGM-2 of this circular.

The proxy form for the EGM has been posted to you (if requested) on 9 December 2024. Whether or not you are able to attend the EGM in person, you are requested to complete and return the applicable proxy form in accordance with the instructions printed thereon. In case of H Shareholders, the proxy form must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible; in case of Domestic Shareholders, the proxy form must be lodged with the head office of the Company in the PRC at No. 28, Block B, Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC as soon as possible; but in any event, not less than 24 hours before the time scheduled for holding the relevant meeting (or any adjournment thereof). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof if you so desire.

\* *For identification purposes only*

9 December 2024

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## DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“Assets”	certain structures, coal-fired boilers and ancillary equipment currently used by Chuncheng Investment for heat production purposes
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Chuncheng Investment”	Changchun Chuncheng Investment Development Group Company Limited* (長春市春城投資發展集團有限公司), a controlling shareholder of the Company
“Chuncheng Investment Group”	Chuncheng Investment and its subsidiaries (other than the Group)
“Company”	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司), presently a joint stock company with limited liability which was incorporated in the PRC on 23 October 2017 and the H Shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	the 15th business day after the fulfilment of all the conditions precedent set out in the Second Assets Transfer Agreement or such other date as agreed by the parties thereto
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration payable by the Company to Chuncheng Investment for the Proposed Acquisition
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	domestic Share(s), which are subscribed for in RMB and held by PRC nationals or PRC incorporated entities, and are not listed or traded on any stock exchange
“Domestic Shareholder(s)”	holder(s) of Domestic Share(s)

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## DEFINITIONS

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“EGM”	the second extraordinary general meeting of 2024 to be held by the Company on Tuesday, 24 December 2024 for consideration and approval of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder
“First Assets Transfer Agreement”	the assets transfer agreement dated 19 March 2024 and entered into between Yatai Heating and Chuncheng Investment, further details of which are disclosed in the Company’s announcement dated 19 March 2024
“Group”	the Company and its subsidiaries from time to time
“H Share(s)”	overseas listed foreign Share(s), which are subscribed for and traded in HK\$ and listed on the Main Board of the Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shareholder(s)”	holder(s) of the H Share(s)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Fu Yachen, Mr. Poon Pok Man and Ms. Zhang Yan, and formed to advise the Independent Shareholders in relation to (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Shareholder(s)”	Shareholder(s) who are not required under the Listing Rules to abstain from voting in respect of the resolutions in respect of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder at the EGM
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Latest Practicable Date”	3 December 2024, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended from time to time
“Loan”	the loan in the amount of not more than RMB300 million to be provided by the Company to Chun Cheng Investment
“Loan Agreement”	the loan agreement dated 1 November 2024 and entered into between the Company and Chun Cheng Investment in respect of the Loan
“PRC”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Acquisition”	the proposed acquisition of the Assets by the Company from Chun Cheng Investment pursuant to the terms and conditions of the Second Assets Transfer Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Second Assets Transfer Agreement”	the assets transfer agreement dated 1 November 2024 and entered into between the Company and Chun Cheng Investment in relation to the Proposed Acquisition
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	the Domestic Share(s) and the H Share(s) of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Valuation Date”	31 August 2024
“Valuer”	Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.* (北京中評恒信資產評估有限責任公司), an independent valuer
“Yatai Heating”	Changchun Yatai Heating Company Limited* (長春亞泰熱力有限責任公司), a limited liability company established in the PRC on 30 October 1998 and is a wholly-owned subsidiary of the Company. Yatai Heating is principally engaged in the heat services business
“%”	per cent.

\* *For identification purposes only*



**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)**

*Executive Directors:*

Mr. Yang Zhongshi  
Mr. Shi Mingjun  
Mr. Xu Chungang  
Mr. Li Yeji

*Non-executive Director:*

Mr. Song Chi (*Chairman*)

*Independent non-executive Directors:*

Mr. Fu Yachen  
Mr. Poon Pok Man  
Ms. Zhang Yan

*Registered office in the PRC:*

No. 28, Block B Nanhu Road Community  
No. 998 Nanhu Road, Nangan District  
Changchun City, Jilin Province, the PRC

*Head office/Principal place of  
business in the PRC:*

No. 28, Block B Nanhu Road Community  
No. 998 Nanhu Road, Nangan District  
Changchun City, Jilin Province, the PRC

*Principal place of business in Hong Kong:*

46/F, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED AND DISCLOSEABLE TRANSACTION:  
ACQUISITION OF ASSETS;  
(2) CONNECTED AND MAJOR TRANSACTION:  
PROVISION OF THE LOAN; AND  
(3) NOTICE OF THE SECOND EGM OF 2024**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 1 November 2024 in relation to, among others, the Second Assets Transfer Agreement and the Loan Agreement.

\* For identification purposes only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, further details of the Second Assets Transfer Agreement and the Loan Agreement; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Second Assets Transfer Agreement and the Loan Agreement; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Second Assets Transfer Agreement and the Loan Agreement; (iv) further information required to be disclosed under the Listing Rules; and (v) notice of the EGM.

### II. THE PROPOSED ACQUISITION

On 1 November 2024 (after trading hours), the Company and Chuncheng Investment, a controlling shareholder of the Company, entered into the Second Assets Transfer Agreement, pursuant to which the Company has conditionally agreed to purchase, and Chuncheng Investment has conditionally agreed to sell, the Assets in accordance with the terms and conditions of the Second Assets Transfer Agreement.

#### A. The Second Assets Transfer Agreement

Set out below are the major terms of the Second Assets Transfer Agreement:

(i) *Date*

1 November 2024

(ii) *Parties*

- (a) The Company, as the purchaser
- (b) Chuncheng Investment, as the vendor

(iii) *Assets to be acquired*

Pursuant to the Second Assets Transfer Agreement, the Company has conditionally agreed to purchase, and Chuncheng Investment has conditionally agreed to sell, the Assets, subject to the terms and conditions therein.

The Assets comprise certain structures, coal-fired boilers and ancillary equipment currently used by Chuncheng Investment for heat production purposes. According to the information provided by Chuncheng Investment, the book value of the Assets amounted to RMB42,111,854.46 as at 31 August 2024.

(iv) *Consideration*

The Consideration is RMB82,886,461.00, which shall be satisfied by the Company in cash on the Completion Date.



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## LETTER FROM THE BOARD

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The Consideration has been arrived at after arm's length negotiations between the Company and Chuncheng Investment with reference to the total appraised value of the Assets of RMB82,886,461.00 as at 31 August 2024 (the "Valuation Date") as stated in the valuation report prepared by the Valuer, using the cost method. The Group intends to finance the Consideration by its existing internal resources.

### *Valuation of "Fixed assets — structures"*

The Valuer determined the appraised value of the "fixed assets — structures" by the following formula:

$$\text{Appraised value} = \text{replacement cost} \times \text{integrated newness rate}$$

The replacement cost refers to the sum of (1) cost of construction and installation; (2) upfront and other cost; and (3) capital cost. There are a total of 5 structures under valuation and the replacement cost ranged from RMB162,000 to RMB3,630,480.

In determining the integrated newness rate, the Valuer made references to the economic life and used life of the respective assets. Of the 5 structures under valuation, the economic life ranged from 20 to 30 years and the used life of the respective assets ranged from 1.67 to 20.35 years. The integrated newness rate adopted by the Valuer for the valuation of "fixed assets — structures" ranged from 21% to 94%.

### *Valuation of "Fixed assets — equipment"*

The Valuer determined the appraised value of the "fixed assets — equipment" by the following formula:

$$\text{Appraised value} = \text{replacement cost} \times \text{integrated newness rate}$$

For the standard set of machineries and equipment, their replacement cost is determined in accordance with the tax and fee regulations in the PRC and based on the purchase price from the market, plus transportation and miscellaneous costs, installation and commissioning fee and cost of necessary auxiliary parts to bring the equipment to the condition ready for use, and other construction preliminary costs and other expenses and capital cost calculated based on the current market fee rates in the region where the appraised assets are located. There are a total of 527 equipment under valuation and the replacement cost ranged from RMB868 to RMB17,170,626.

In determining the integrated newness rate, the Valuer made references to the economic life and used life of the respective assets. Of the 527 equipment under valuation, the economic life ranged from 8 to 20 years and the used life of the respective assets ranged from 0.67 to 21.85 years. The integrated newness rate adopted by the Valuer for the valuation of "fixed assets — equipment" ranged from 15% to 97%.

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## LETTER FROM THE BOARD

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Set out below are further information in relation to the top 5 equipment item with the highest appraised value:

Equipment item	Appraised value (RMB)	Net book value (RMB)	Newness rate determined by the lifetime method	Newness rate determined by the survey method
1. Boiler #4-6 Public desulfurization tower	10,474,082.00	4,161,039.08	54%	65%
2. Public desulfurization tower	4,807,449.00	2,065,731.65	54%	60%
3. Boiler #1	4,370,610.00	2,876,561.72	67%	65%
4. Dust collector #4	3,817,130.00	1,625,921.94	54%	60%
5. Boiler #6	3,642,175.00	2,080,747.19	36%	30%

### *Differences between the Assets' appraised value and book value*

As at the Valuation Date, the total appraised value and the book value of the Assets amounted to RMB82,886,461.00 and RMB42,111,854.46, respectively. The difference was mainly attributable to the following:

- (a) the increase in the original value of equipment is mainly due to the continued price increase in the PRC whereby the prices in the materials market have shown an upward trend, the direct costs of construction projects, labour costs and prices of machineries also increase simultaneously, resulting in an increase in the value of the replacement cost of the Assets under appraisal;
- (b) of the 527 coal-fired boilers and ancillary equipment under valuation, 133 pieces have been utilized for less than 10 years with an appraised value of approximately RMB52.5 million, whereas 394 were used for more than 10 years with an appraised value of approximately RMB25.8 million. Notably, more than 80% of the total appraised value of equipment is derived from desulphurization towers, dust collectors, and boilers. The desulphurization towers and dust collectors have been used for approximately 7 to 9 years whereas the boilers have been used for approximately 7 to 20 years. According to the Valuer, as economic life of an asset does not account for factors such as maintenance, long-aged equipment can remain operational with adequate maintenance even if its used life exceeds its economic life;
- (c) the newness rate determined by the lifetime method is more theoretical and does not take account of physical condition of a specific asset. The limitation is addressed by incorporating the survey method, which reflects the actual

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## LETTER FROM THE BOARD

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condition of the assets. As a result, a greater weighting is assigned to the newness rate determined by the survey method in the valuation process. Approximately 18.5% of the equipment, in terms of appraised value, was evaluated with a higher newness rate determined by the lifetime method compared to the survey method. Conversely, approximately 64.3% of the equipment was evaluated at a higher newness rate determined by the survey method by less than 20% relative to the lifetime method. Additionally, approximately 7.9% of the equipment was assessed with a higher newness rate determined by the survey method by more than 20% compared to lifetime method, while approximately 9.2% of the equipment has been utilized beyond its economic life resulting in a theoretical negative newness rate determined by the lifetime method. The useful life of equipment varies based on its type, quality, usage conditions, and maintenance practices. The newness rate determined by the survey method is generally higher than that determined by the lifetime method, as the survey method takes account of maintenance whereas the lifetime method does not. As regular maintenance has been conducted on aged equipment, higher newness rates determined by the survey method as compared to lifetime method were adopted based on the actual state and the operation efficiency of such equipment. For equipment that has reached its economic life but remains in normal use, the Valuer adopted a 15% integrated newness rate, which aligns with the industry norm developed based on previous Notice on Forwarding the Opinions on the Operating Procedure for Asset Appraisal (for Trial Implementation) (No.23 [1996] of the Office of the State-owned Assets Administration Bureau)\* (國資辦發[1996]23號國家國有資產管理局關於轉發《資產評估操作規範意見(試行)》的通知), which stipulated that the newness rate of assets under normal operation should not be less than 15% and that the appraised value should not fall below 15% of the replacement cost; and

- (d) differences in the depreciation rate adopted by Chuncheng Investment in calculating the net book value and the integrated newness rate adopted by the Valuer in the valuation process. Generally, the period adopted in the valuation which takes into account the physical state of the equipment's effective usability is longer than the useful life adopted by Chuncheng Investment determined in accordance with applicable accounting standards. For instance, some equipment can continue to operate normally even when it has surpassed its useful life. For illustration purpose only, the useful life adopted by Chuncheng Investment in calculating the net book value in accordance with applicable accounting standards is 5 years for electronic equipment and 10 years for machinery and equipment while the economic life ranged from 8 to 20 years and the used life of the respective assets ranged from 0.67 to 21.85 years.

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## LETTER FROM THE BOARD

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In view of the above and having taking into account the valuation methods and assumptions adopted by the Valuer and that the valuation was carried out in accordance with applicable laws, rules and regulations, the Board considered that the appraised value of the Assets, including the appraisal added value of approximately RMB40.7746 million is fair and reasonable.

Please refer to the valuation report in Appendix II hereto for further information.

Having considered the factors taken into account by the parties in arriving at the Consideration and the valuation methods and assumptions adopted by the Valuer, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view will be set out in the circular to be issued by the Company after taking into consideration the advice of the Independent Financial Adviser) are of the view that the Consideration is fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

**(v) *Conditions precedent***

Completion is conditional upon the following conditions having been fulfilled:

- (a) Chuncheng Investment having completed the applicable internal decision-making procedure in respect of the Second Assets Transfer Agreement and the transactions contemplated thereunder in accordance with the requirements of its articles of association;
- (b) the Second Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Board and the Shareholders at general meeting of the Company in accordance with the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and
- (c) (where applicable) as regards the entering into and performance of the Second Assets Transfer Agreement, each of Chuncheng Investment and the Company having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.

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

**(vi) *Completion***

Upon the fulfilment of all of the conditions precedent set out in the Second Assets Transfer Agreement, Completion shall take place on the Completion Date.

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## LETTER FROM THE BOARD

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With effect from the Completion Date, all interests, rights and obligations attached to the Assets shall be transferred from Chun Cheng Investment to the Company.

### **B. Reasons for and benefits of the Proposed Acquisition**

Since the Company is mainly engaged in heating service business and the Assets are used for heat production purposes, the Company is of the view that the Proposed Acquisition would enable the Group to further enhance its heat production efficiency, optimize the structure of the Group's heat supply business, increase its capabilities on heat source protection, significantly reduce the amount of continuing connected transactions between the Group and Chun Cheng Investment Group as well as minimize any potential competition between the Group and Chun Cheng Investment Group, which in turn is beneficial to the Group's overall strategic development.

Chun Cheng Investment has undertaken that upon Completion, it shall grant the Company a right of use of the premises which the Assets currently situate at nil consideration. Chun Cheng Investment also warranted that the Company's operations on the aforementioned premises will not be affected by issues on land ownership. Upon Completion, the Assets will be solely operated, maintained and supervised by the Group's employees.

Based on the above, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view will be set out in the circular to be issued by the Company after taking into consideration the advice of the Independent Financial Adviser) consider that the terms of the Second Assets Transfer Agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### **III. THE PROVISION OF THE LOAN**

On 1 November 2024 (after trading hours), the Company, as lender, and Chun Cheng Investment, a controlling shareholder of the Company, as borrower, entered into the Loan Agreement.

#### **A. The Loan**

Set out below are the major terms of the Loan:

<b>Date:</b>	1 November 2024
<b>Lender:</b>	the Company
<b>Borrower:</b>	Chun Cheng Investment

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## LETTER FROM THE BOARD

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**Amount of the Loan:** Not more than RMB300 million

During the term of the Loan, Chuncheng Investment may draw down the Loan in one or more tranches by providing the Company with a drawdown request (the “**Drawdown Request**”), specifying the intended drawdown amount. Within 15 business days of receiving the Drawdown Request, the Company shall inform Chuncheng Investment whether or not the Company accepts such Drawdown Request and make available such funds to Chuncheng Investment if such Drawdown Request is accepted. The Company has absolute discretion in determining whether to accept any Drawdown Request.

**Interest rate:** 4.5% per annum

The interest rate was arrived at after arm’s length negotiations between the Company and Chuncheng Investment having taking into consideration the prevailing market interest rates.

Interest shall be payable by Chuncheng Investment to the Company by the 15th calendar day of the month following the end of each quarter.

**Term of the Loan:** From the date when the Independent Shareholders approved the Loan Agreement at the EGM up to 31 December 2029 (the “**Maturity Date**”) (both days inclusive)

**Maturity and repayment:** Chuncheng Investment shall repay the Loan together with any accrued interest in full on the Maturity Date.

Upon obtaining the Company’s prior consent, Chuncheng Investment may repay the Loan or any part thereof at any time before the Maturity Date without penalty.

Chuncheng Investment acknowledged that the Company has the right to require Chuncheng Investment to repay the Loan or any part thereof at any time before the Maturity Date due to the Company’s business needs or capital market operation requirements.

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## LETTER FROM THE BOARD

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**Purpose of the Loan:** The Loan is provided to Chuncheng Investment for the “Retreat from the City and Enter into the Suburbs Project” (退城進郊項目)<sup>(Note)</sup> (the “**Retreat Project**”), transformation of old pipe network(s) (the “**Transformation Project**”), as well as for Chuncheng Investment Group’s general working capital.

### **B. Reasons for and benefits of the provision of the Loan**

The Loan is provided to Chuncheng Investment for the Retreat Project, the Transformation Project as well as for Chuncheng Investment Group’s general working capital.

The Retreat Project aims to optimize the urban layout and enhance the urban environment by relocating the No. 2 Thermal Plant of Changchun City (the “**No. 2 Thermal Plant**”) from the city of Changchun to a suburban area. As the Group also procures heat from No. 2 Thermal Plant, the Group would be able to benefit from improved heat supply efficiency through the enhanced pipeline network while not incurring additional costs associated with constructing the pipeline infrastructure. The Transformation Project involves the transformation of old pipe networks in service areas which are different from that of the Group. As disclosed in the Company’s prospectus dated 27 September 2019, the Company entered into a non-competition agreement with Chuncheng Investment, which shall continue to be effective until the earlier of the occurrence of the following situations: (i) the date on which Chuncheng Investment and its subsidiaries, in aggregate, directly or indirectly hold less than 30% of the entire issued share capital of the Company; or (ii) the date on which the H Shares cease to be listed on the Stock Exchange, except that trading in the H Shares is temporarily suspended for any reason. Therefore, the Company considered that the Retreat Project and the Transformation Project would not increase potential competition between the Group and Chuncheng Investment.

Having taking into account the Company’s current available cash balances, the Company considered it in the interests of the Company and its Shareholders as a whole to grant the Loan to Chuncheng Investment because the Loan could generate interest income to the Company on one hand and at the same time, the Group would be able to benefit from the improved heat supply efficiency brought by the Retreat Project and that neither the Retreat Project nor the Transformation Project would increase potential competition between the

*Note:*

The Retreat Project is a construction project undertaken by Chuncheng Investment which involves the provision of construction services by Chuncheng Investment to No. 2 Thermal Plant of Changchun City (a thermal plant which neither the Company nor Chuncheng Investment has any shareholding interest in it). As required by The Government of Changchun City, only wholly-owned stated-owned enterprises could undertake the construction work of the Retreat Project.

As Chuncheng Investment is wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會), it is eligible to undertake the construction work of the Retreat Project.



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## LETTER FROM THE BOARD

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Group and Chuncheng Investment. In addition, given the interest rate to be charged by the Company in relation to the Loan (i.e. 4.5% per annum) is above the deposit interest rate offered by other banks (i.e. approximately 1.15% to 1.35% per annum), the Company is able to generate higher interest income through the provision of the Loan than depositing the cash with the banks.

The Group has been generating profits and maintains a relatively stable cash flow in recent years. Due to seasonable operating factors, the Group's cash balance is generally lower in the first half of the year because the heat supply period begins in October every year and the Group generally commences receiving heat fees from its customers in the second half of the year. Having considered the cash inflows generated during the heat supply period and taking into consideration the maximum amount of Loan to be provided to Chuncheng Investment, the Group still has sufficient working capital to support its daily operations.

Having considered Chuncheng Investment is a state-owned enterprise which is wholly-owned by Changchun State-owned Assets Supervision and Administration Commission, the Company is of the view that Chuncheng Investment has high debt repayment ability and operational stability. In particular, state-owned enterprises are the underpinning pillars in the socialist economy with Chinese characteristics and they play an irreplaceable economic role in maintaining national economic security and promoting high-quality development. The PRC Government has, from time to time, announced policies to support state-owned enterprises which are engaging in livelihood industries (such as heat supply) in the form of tax incentives, financial support, etc. to ensure that they continue to play the role as underpinning pillars in sustaining and stabilizing the growth of the national economy. In addition, based on the information provided by Chuncheng Investment to the Company, Chuncheng Investment has not defaulted any loans in recent years and certain large PRC banks have provided unsecured loans to Chuncheng Investment after their credit evaluation, which indicate Chuncheng Investment's good credit record. As such, the Company considered that it is common industry practice for loans provided to state-owned enterprises to be unsecured. Moreover, based on the information provided by Chuncheng Investment, Chuncheng Investment Group generated revenue of not less than RMB430 million for the year ended 31 December 2023 and had not less than RMB411 million cash balances and unutilized bank facilities in aggregate as at 30 June 2024. Based on the foregoing, while the Loan is unsecured, the Company still considered that the recoverability risk of the Loan is low and the terms of the Loan are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The terms of the Loan Agreement (including the interest rate) are negotiated on an arm's length basis between the Company and Chuncheng Investment having taken into account the prevailing market interest rates and practices.

The Company will finance the Loan under the Loan Agreement with its existing internal resources.

In view of the above, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view will be set out in the



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## LETTER FROM THE BOARD

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circular to be issued by the Company after taking into consideration the advice of the Independent Financial Adviser) consider that the terms of the Loan Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### IV. FURTHER INFORMATION ON THE COMPANY AND CHUNCHENG INVESTMENT

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

Chuncheng Investment is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會). Chuncheng Investment and its subsidiaries are mainly engaged in property management, water supply, pipeline manufacturing, heat production and supply, sale of industrial steam and financial investments.

#### V. LISTING RULES IMPLICATIONS

##### A. The Proposed Acquisition

Reference is made to the Company's announcements dated 19 March 2024 and 22 March 2024 in relation to the First Assets Transfer Agreement.

Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the First Assets Transfer Agreement and the Second Assets Transfer Agreement shall be aggregated because both agreements are entered into with Chuncheng Investment and both transactions involve the acquisition of assets which were used by Chuncheng Investment for heat production purposes.

As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition (on a standalone basis or when aggregated with the transactions contemplated under the First Assets Transfer Agreement) exceed(s) 5% but all of them are less than 25%, the Proposed Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements thereunder.

Given that Chuncheng Investment 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 Second Assets Transfer Agreement, Chuncheng Investment is a connected person of the Company and the Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition (on a standalone

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## LETTER FROM THE BOARD

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basis or when aggregated with the transactions contemplated under the First Assets Transfer Agreement) exceed(s) 5%, the Proposed Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **B. The Provision of the Loan**

As the assets ratio (as defined in the Listing Rules) in respect of the Loan exceeded 8%, the Loan is subject to the announcement requirements under Rule 13.13 of the Listing Rules.

As one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Loan exceeds 25%, the provision of the Loan 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 Chuncheng Investment 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 Loan Agreement, Chuncheng Investment is a connected person of the Company and the provision of the Loan 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 Loan exceed 5%, the provision of the Loan is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **VI. THE EGM**

The Company will convene the EGM at 9 a.m. on Tuesday, 24 December 2024 at Conference Room 711, Chuncheng Heating, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC to consider and, if thought fit, to pass resolutions in respect of the matters set out in the notice of the EGM. A form of proxy has been dispatched (if requested) to the Shareholders in accordance with the Listing Rules on 9 December 2024. The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you intend to attend and/or vote at the EGM, you are requested to complete and return the form of proxy in accordance with the instruction printed thereon.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. For H Shareholders, the form of proxy should be returned to the H Share Registrar, Computershare Hong Kong Investor Services Limited, and for Domestic Shareholders, the form of proxy should be returned to the office of the Board at the head office of the Company in the PRC in person or by post as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof.

Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

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## LETTER FROM THE BOARD

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### VII. VOTING BY POLL AT THE EGM

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the general meetings must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the EGM pursuant to Article 78 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy (or being a corporation by its duly authorized representative) shall have one vote for each Share registered in his/her name in the register of members. A Shareholder entitled to more than one vote needs not use all his/her votes or cast all the votes he/she has in the same manner.

### VIII. CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY FOR ATTENDING AND VOTING AT THE EGM

For the purpose of determining the Shareholders' rights to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 19 December 2024 to Tuesday, 24 December 2024 (both days inclusive), during which period no transfer of the Shares will be registered.

Shareholders whose names appear on the register of members of the Company on Tuesday, 24 December 2024 shall be entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents together with relevant share certificates and other appropriate documents must be lodged for registration with the head office of the Company in the PRC at No. 28, Block B, Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC (in the case of the Company's domestic Shareholders), or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in the case of the Company's H Shareholders) no later than 4:30 p.m. on Wednesday, 18 December 2024.

### IX. GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders as to (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder.

The Independent Financial Adviser, Giraffe Capital Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder.

Shareholders who have a material interest are required to abstain from voting in respect of the resolutions in respect of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder at the EGM. As at the date of this announcement, Chuncheng Investment holds 325,500,000 Domestic Shares, representing approximately 69.75% of the total share capital of the Company.

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## LETTER FROM THE BOARD

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Chuncheng Investment and its associates will abstain from voting on the resolutions to be proposed at the EGM in respect of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders will be required to abstain from voting in respect of the resolutions in respect of (1) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (2) the Loan Agreement and the transactions contemplated thereunder at the EGM.

### **X. RECOMMENDATIONS**

The Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that the terms of each of the Second Assets Transfer Agreement and the Loan Agreement are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder.

### **XI. ADDITIONAL INFORMATION**

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

By order of the Board  
**Jilin Province Chuncheng Heating Company Limited\***  
**Song Chi**  
*Chairman*

Jilin, the PRC, 9 December 2024



**Jilin Province Chuncheng Heating Company Limited\***

**吉林省春城熱力股份有限公司**

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

**(Stock code: 1853)**

9 December 2024

*To the Independent Shareholders*

Dear Sir or Madam

**(1) CONNECTED AND DISCLOSEABLE TRANSACTION:  
ACQUISITION OF ASSETS; AND  
(2) CONNECTED AND MAJOR TRANSACTION: PROVISION OF THE LOAN**

We refer to the circular issued by the Company to its Shareholders dated 9 December 2024 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder, are fair and reasonable so far as the Independent Shareholders are concerned. Details of (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder are set out in the letter from the Board contained in the Circular. Giraffe Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from the Independent Financial Adviser contained in the Circular.

Having considered the terms of each of (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder and taking into account the information contained in the Circular and the advice of the Independent Financial Adviser, we are of the opinion that while each of (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder, are not conducted in the ordinary and usual course of business of the Group, each of (a) the Second Assets Transfer Agreement and the

\* *For identification purposes only*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be put forward at the EGM to approve each of (a) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (b) the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of  
the Independent Board Committee

**Mr. Fu Yachen**  
*Independent Non-executive  
Director*

**Mr. Poon Pok Man**  
*Independent Non-executive  
Director*

**Ms. Zhang Yan**  
*Independent Non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



**Giraffe Capital Limited**

9 December 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**(1) CONNECTED AND DISCLOSEABLE TRANSACTION:  
ACQUISITION OF ASSETS; AND  
(2) CONNECTED AND MAJOR TRANSACTION:  
PROVISION OF THE LOAN**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (ii) the Loan Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular issued by the Company dated 9 December 2024 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 1 November 2024 (after trading hours), the Company and Chuncheng Investment, a controlling shareholder of the Company, entered into the Second Assets Transfer Agreement, pursuant to which the Company has conditionally agreed to purchase, and Chuncheng Investment has conditionally agreed to sell, the Assets for the Consideration of RMB82,886,461.00 in accordance with the terms and conditions of the Second Assets Transfer Agreement. On 1 November 2024 (after trading hours), the Company, as lender, and Chuncheng Investment, a controlling shareholder of the Company, as borrower, entered into the Loan Agreement, pursuant to which the Company has agreed to advance the Loan in an amount of not more than RMB300 million to Chuncheng Investment in accordance with the terms and conditions of the Loan Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the Letter from the Board, pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the First Assets Transfer Agreement and the Second Assets Transfer Agreement shall be aggregated because both agreements are entered into with Chuncheng Investment and both transactions involve the acquisition of assets which were used by Chuncheng Investment for heat production purposes. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition (on a standalone basis or when aggregated with the transactions contemplated under the First Assets Transfer Agreement) exceed(s) 5% but all of them are less than 25%, the Proposed Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements thereunder.

Given that Chuncheng Investment 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 Second Assets Transfer Agreement, Chuncheng Investment is a connected person of the Company and the Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition (on a standalone basis or when aggregated with the transactions contemplated under the First Assets Transfer Agreement) exceed(s) 5%, the Proposed Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the Letter from the Board, as the assets ratio (as defined in the Listing Rules) in respect of the Loan exceeded 8%, the Loan is subject to the announcement requirements under Rule 13.13 of the Listing Rules. As one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Loan exceeds 25%, the provision of the Loan 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 Chuncheng Investment 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 Loan Agreement, Chuncheng Investment is a connected person of the Company and the provision of the Loan 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 Loan exceed 5%, the provision of the Loan is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### THE INDEPENDENT BOARD COMMITTEE

The independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Fu Yachen, Mr. Poon Pok Man and Ms. Zhang Yan, has been formed to advise the Independent Shareholders in relation to (i) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (ii) the Loan Agreement and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

### OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of the 2024–2026 heat procurement framework agreement (Chuncheng Investment), the 2024–2026 heat procurement framework agreement (Datang JV), the 2024–2026 construction framework agreement and the 2024–2026 pipes supply framework agreement as detailed in the circular of the Company dated 7 November 2023. Notwithstanding the above engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders considering that (i) our independent roles in the aforesaid engagement (the “**Previous Engagement**”); (ii) the aggregate professional fees paid/to be paid by the Company to us represent an insignificant portion of our revenue during the relevant period; and (iii) we have maintained our independence from the Company since the Previous Engagement, and our independence from the Company has not been compromised because of the Previous Engagement.

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

### BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the announcement of the Company dated 1 November 2024 in relation to the Proposed Acquisition and provision of the Loan; (ii) the terms of the Second Assets Transfer Agreement and the Loan Agreement; (iii) the annual report of the Company for the year ended 31 December 2023 (“**FY2023**”) (the “**2023 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2024 (“**6M2024**”) (the “**2024 Interim Report**”); (iv) the information and facts supplied by the Group; (v) the opinions expressed by and the representations of the Directors and management of the Group (the “**Management**”); and (vi) certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information regarding the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of (i) the terms of the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (ii) the terms of the Loan Agreement and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of (i) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (ii) the Loan Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

#### 1. Information on the Group

##### 1.1 *Business of the Group*

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

According to the 2023 Annual Report, the Group has continued to increase investment in the informatisation and intelligentisation of heat supply. Since its establishment, it has continued to build a smart heat supply network system in a planned and phased manner. The current smart heat supply network system has achieved real-time monitoring, remote control, big data comprehensive analysis and other functions, and has been identified as the leading system in the heating industry by China District Heating Association (中國城鎮供熱協會). With heat supply as its core business, the Group has established long-term and stable cooperative relationships with a number of thermal power plants. Heat supply services are provided to around 550,000 residential and non-residential users in Changchun with cogeneration as the main heat supply mode. As at 31 December 2023, the heat service area of the Group was approximately 67.1 million sq.m., representing an increase of approximately 2.9% compared to approximately 65.2 million sq.m. as at 31 December 2022. According to the 2024 Interim Report, the heat service area of the Group further increased to approximately 67.4 million sq.m..

According to the 2023 Annual Report and the 2024 Interim Report, the Group's construction, maintenance, design and others cover the peripheral services business of the heat supply industry chain. The Group mainly provides services include engineering construction, engineering maintenance, design services and so on for heat supply companies or end-users. These services mainly cover northeast China.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.2 *Financial performance of the Group*

Set out below is a summary of the Group's operating results as extracted from the 2023 Annual Report and 2024 Interim Report:

	<b>For the year ended</b>		<b>For the six months</b>	
	<b>31 December</b>		<b>ended 30 June</b>	
	<b>2022</b>	<b>2023</b>	<b>2023</b>	<b>2024</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>				
— Heat supply business	1,538,419	1,570,725	879,343	900,324
— Construction, maintenance and design services	<u>116,286</u>	<u>123,692</u>	<u>19,011</u>	<u>6,305</u>
	<b>1,654,705</b>	<b>1,694,417</b>	<b>898,354</b>	<b>906,629</b>
<b>Gross profit</b>	230,648	265,890	225,618	220,038
<i>Gross profit margin</i>	<i>13.9%</i>	<i>15.7%</i>	<i>25.1%</i>	<i>24.3%</i>
<b>Net profit</b>	<b>114,668</b>	<b>120,956</b>	<b>124,924</b>	<b>148,142</b>

For the years ended 31 December 2022 (“FY2022”) and 2023 and for the six months ended 30 June 2023 and 2024, the Group generated revenue from two operating segments, being (i) heat supply services and (ii) construction, maintenance and design services. Revenue generated from heat supply segment includes fees for provision and distribution of heat, entrance fees charged for connections to the Group's heat distribution network and heat transmission fees charged to other heat service providers. Revenue generated from construction, maintenance and design services includes engineering construction, engineering maintenance, design services and electrical instrument maintenance and repair.

#### *Comparison of financial performance between the year ended 31 December 2022 and 2023*

Based on the 2023 Annual Report, the Group's revenue increased by approximately 2.4% from approximately RMB1,654.7 million in FY2022 to approximately RMB1,694.4 million in FY2023 mainly attributable to the increase in revenue generated from the heat supply business by RMB32.3 million as a result of the increase in heat service area from approximately 65.2 million sq.m. as at 31 December 2022 to approximately 67.1 million sq.m. as at 31 December 2023, representing an increase of approximately 2.9%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group's gross profit increased by approximately 15.3% from approximately RMB230.6 million in FY2022 to approximately RMB265.9 million in FY2023, and the gross profit margin increased from approximately 13.9% in FY2022 to approximately 15.7% in FY2023, mainly attributable to (i) the increase in the revenue generated from heat supply business as mentioned above; (ii) the decrease in heat procurement costs primarily resulting from the decrease in total heat procurement from approximately 24.2 million GJ in FY2022 to approximately 23.0 million GJ in FY2023; and (iii) the decrease in costs of coal consumed in the heat supply business primarily resulting from the lower coal consumption as a result of the partial adoption of purchased heat sources by Jilin Province Xixing Energy Limited\* (吉林省西興能源有限公司), a subsidiary of the Company, in FY2023.

The Group's net profit increased from approximately RMB114.7 million in FY2022 to approximately RMB121.0 million in FY2023, which was in line with the increase in gross profit contributed by the Group's heat supply business.

### *Comparison of financial performance between the six months ended 30 June 2023 and 2024*

Based on the 2024 Interim Report, the Group's revenue remained relatively stable at approximately RMB898.4 million for the six months ended 30 June 2023 ("**6M2023**") and RMB906.6 million in 6M2024.

The Group's gross profit remained relatively stable at approximately RMB225.6 million in 6M2023 and approximately RMB220.0 million in 6M2024. The gross profit margin decreased from approximately 25.1% in 6M2023 to approximately 24.3% in 6M2024, mainly due to (i) increase in wages resulting from the increase in number of labor workers; and (ii) increase in utilities costs.

The Group's net profit increased by approximately 18.6% from approximately RMB124.9 million in 6M2023 to approximately RMB148.1 million in 6M2024 mainly due to (i) the decrease in credit impairment loss which was mainly attributable to the decrease in gross balance of trade receivables as at 30 June 2024 as compared to the balance as at 30 June 2023; and (ii) the reversal of impairment loss on assets of approximately RMB21.6 million in relation to contract assets recovered in 6M2024.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.3 Financial position of the Group

Set out below is a summary of the Group's financial position as extracted from the 2023 Annual Report and 2024 Interim Report:

	As at 31 December 2022 RMB'000	As at 31 December 2023 RMB'000	As at 30 June 2024 RMB'000
<b>Assets</b>			
— Cash and cash equivalents	1,030,236	1,111,042	553,826
— Fixed assets	984,809	897,056	863,079
— Prepayments	587,425	560,281	176,197
<b>Liabilities</b>			
— Contract liabilities	1,410,923	1,381,514	467,567
<b>Total equity</b>	911,901	989,846	1,137,988
<b>Gearing ratio (Note 1)</b>	N/A	N/A	N/A

*Notes:*

- Gearing ratio is the percentage of total interest-bearing liabilities (including interest-bearing bank and other borrowings and lease liabilities), net of cash and cash equivalents, to total equity at the end of each financial period.
- For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above.

According to the 2023 Annual Report, the Group's cash and cash equivalents increased by 7.8% from approximately RMB1,030.2 million as at 31 December 2022 to approximately RMB1,111.0 million as at 31 December 2023, which was the combined effect of (i) net cash inflow from operating activities of approximately RMB399.3 million in FY2023 mainly comprised cash received from sales of goods or rendering of services partially offset by cash paid for purchase of goods or receipts of services; and (ii) net cash outflow from investing activities and financing activities of RMB318.5 million in FY2023. According to the 2024 Interim Report, the Group's cash and cash equivalents decreased to RMB553.8 million as at 30 June 2024 mainly due to net cash outflow from operating activities for 6M2024 of approximately RMB495.5 million as heat fee was generally collected in the second half of the year before the commencement of the heat supply period.

The Group's fixed assets primarily comprised pipeline network and machinery and equipment. The decrease in the net book value of fixed assets was mainly attributable to the depreciation charged in respective years/periods.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group's prepayments mainly represented heat procurement costs paid to local cogeneration plants in advance before the commencement of heat supply period. As at 31 December 2023 and 2022, the Group's prepayments remained relatively stable at RMB560.3 million and RMB587.4 million respectively. As at 30 June 2024, the Group's prepayments decreased to RMB176.2 million mainly due to the decrease in prepaid heat procurement costs as the relevant costs were recognized as cost of sales during the period.

The Group's liabilities mainly derived from contract liabilities which represented the Group's obligation to provide goods to the customer for the consideration received or receivable. As at 31 December 2023 and 2022, the Group's contract liabilities remained relatively stable at RMB1.38 billion and RMB1.41 billion respectively. As at 30 June 2024, the Group's contract liabilities decreased to RMB467.6 million as the heat service fees, which were received from the customers before the commencement of heat supply period, were recognized as revenue during the period.

The equity attributable to owners of the Group increased from approximately RMB911.9 million as at 31 December 2022 to approximately RMB989.8 million as at 31 December 2023, and further to RMB1,138.0 million as at 30 June 2024, mainly attributable to the profit for FY2023 and 6M2024.

As at 30 June 2024, 31 December 2023 and 2022, the Group's borrowings amounted to RMB35.0 million, nil, and RMB234.0 million respectively. Since the Group's cash and cash equivalents exceeded the Group's total interest-bearing liabilities, the gearing ratio was not applicable as at 30 June 2024, 31 December 2023 and 2022.

### **1.4 Business outlook**

According to the National Bureau of Statistics of China (the "NBS") and the Statistic Bureau of Jilin\* (吉林省統計局), the urbanization rates of the PRC and Jilin Province increased from approximately 54.8% and 54.8% in 2014 to approximately 66.2% and 64.7% in 2023, respectively. The number of urban residents of Jilin Province reached approximately 15.1 million in 2023. The rising urbanization rates in the PRC and Jilin Province lead to increasing demand for heating service and related urban municipal infrastructure, which is the fundamental driver of the development of heat supply and related construction, maintenance and design industry.

Pursuant to the National 14th Five-Year Plan for Urban Infrastructure Construction\* (《「十四五」全國城市基礎設施建設規劃》) published in 2022 by National Development and Reform Commission\* (國家發展和改革委員會) and Ministry of Housing and Urban-Rural Development\* (住房和城鄉建設部), the PRC government continued to improve the central heating capacity, the municipal infrastructure, and service area, and to reduce heat loss rate of heating pipe network. Further, the government proposed to strengthen the construction and transformation of clean heat sources and pipe networks, and develop new energy, renewable energy, and other low-carbon energy sources. These favorable policies are expected to stimulate the demand for the high-quality heating infrastructure and drive the growth of the



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heat supply industry. According to the China Statistical Yearbook compiled by NBS, the length of heating pipelines construction and area of centralised heating of Jilin Province of the PRC has increased from approximately 17,309 k.m. to 36,535 k.m. and from approximately 450 million sq.m. to 719 million sq.m., respectively from 2014 to 2022.

According to the 14th Five-Year Plan for National Economic and Social Development of Changchun City and the Outline of Vision 2035\* (《長春市國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) issued in 2021 by the government of Changchun, the municipal government proposed to construct city heating network, promote the application of “Internet+” in the heating industry and realize smart heating through integration. Moreover, it is proposed to carry out key projects such as reconstruction and expansion of regional boiler rooms and natural gas distributive heating, facilitating the speeding up of heating pipelines construction and improving the municipal heating infrastructure. With the development of national efforts on developing heating from clean energy sources and the goal of “carbon peaking and carbon neutrality”, the PRC government emphasized on accelerating the clean reform of coal-fired heating facilities, promoting the use of renewable energy for heating, eliminating the burning of bulk coal and speeding up the renovation of old heating pipelines.

In March 2022, the Ministry of Housing and Urban-Rural Development\* (住房和城鄉建設部) published the notice of the “14th Five-Year Plan for Building Energy Conservation and Green Building Development” (《「十四五」建築節能與綠色建築發展規劃》), aiming to complete the energy efficiency retrofit of more than 100 million sq.m. in existing residential buildings nationwide by 2025. The release of a series of policies implies the future development of the heating industry will focus on promoting the provision of heat from clean energy sources, improving the efficiency of heating energy use, and accelerating the construction and renovation of heating pipelines. As disclosed in the 2023 Annual Report, the Group would uphold its original intention while deepening reform to adapt to industry trend in the future to advance its development in clean energy heating business. By actively improving its layout in heat supply industry, the Group is committed to making further contribution to the industrial development.

## 2. Information on Chuncheng Investment

As disclosed in the Letter from the Board, Chuncheng Investment is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會). Chuncheng Investment and its subsidiaries are mainly engaged in property management, water supply, pipeline manufacturing, heat production and supply, sale of industrial steam and financial investments. Chuncheng Investment is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company.

\* For identification purpose only



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### 3. The Proposed Acquisition

#### 3.1 *Principal terms of the Second Assets Transfer Agreement*

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

Date	1 November 2024
Parties	(a) The Company, as the purchaser  (b) Chuncheng Investment, as the vendor
Assets to be acquired	<p>Pursuant to the Second Assets Transfer Agreement, the Company has conditionally agreed to purchase, and Chuncheng Investment has conditionally agreed to sell, the Assets, subject to the terms and conditions therein.</p> <p>The Assets comprise certain structures, coal-fired boilers and ancillary equipment currently used by Chuncheng Investment for heat production purposes. According to the information provided by Chuncheng Investment, the book value of the Assets amounted to RMB42,111,854.46 as at 31 August 2024.</p>
Consideration	<p>The Consideration is RMB82,886,461.00, which shall be satisfied by the Company in cash on the Completion Date.</p> <p>The Consideration has been arrived at after arm's length negotiations between the Company and Chuncheng Investment with reference to the total appraised value of the Assets of RMB82,886,461.00 as at 31 August 2024 (the "<b>Valuation Date</b>") as stated in the valuation report prepared by the Valuer, using the cost method. The Group intends to finance the Consideration by its existing internal resources.</p>
Conditions precedent	<p>Completion is conditional upon the following conditions having been fulfilled:</p> <p>(a) Chuncheng Investment having completed the applicable internal decision-making procedure in respect of the Second Assets Transfer Agreement and the transactions contemplated thereunder in accordance with the requirements of its articles of association;</p>

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- (b) the Second Assets Transfer Agreement and the transactions contemplated thereunder having been approved by the Board and the Shareholders at general meeting of the Company in accordance with the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and
- (c) (where applicable) as regards the entering into and performance of the Second Assets Transfer Agreement, each of Chuncheng Investment and the Company having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.

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

### Completion

Upon the fulfilment of all of the conditions precedent set out in the Second Assets Transfer Agreement, Completion shall take place on the Completion Date.

With effect from the Completion Date, all interests, rights and obligations attached to the Assets shall be transferred from Chuncheng Investment to the Company.

As discussed with the Management, they have conducted due diligence on the Assets, including, among others, (i) obtaining key documents such as state-owned land use rights certificate, the certificates of special equipment use registration for the boilers, and the contract for the construction of centralized heat supply; (ii) engaging a Valuer to appraise the Assets based on independent, objective, and fair principles; and (iii) consulting a PRC legal adviser to perform a legal analysis regarding the transfer of the Assets through a non-public method, and considered that no material issues that may affect the feasibility of the Proposed Acquisition had been identified. According to the valuation descriptions given by the Valuer, various approaches were employed, including site inspections, surveys of day-to-day management practices and operation, information gathering from third parties, verification of vouchers, etc. As confirmed in the Valuation Report, the Assets are free from pledges or guarantees. Additionally, we obtained a legal opinion prepared by the PRC legal adviser, who conducted an analysis on the feasibility of transferring the Assets through a non-public method. It is noted that the transfer is feasible provided that the necessary approvals are obtained from the relevant regulatory authorities overseeing state-owned assets. We inquired the PRC legal adviser on their qualifications, experience and independence and reviewed their

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credentials, and noted that the PRC legal adviser holds a practicing license in accordance with the Law of the PRC on Lawyers and the Measures for the Administration of Law Firms, and the personnel in charge is awarded an Outstanding Lawyer in Jilin Province.

### *Consideration*

To assess the fairness and reasonableness of the Consideration, we obtained the valuation report prepared by the Valuer (the “**Valuation Report**”), details of which are set out in Appendix II to the Circular.

We understood from the Management that the Assets were appraised by Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.\* (北京中評恒信資產評估有限責任公司), an independent firm of qualified valuers in the PRC. According to the Valuation Report prepared by the Valuer, the total appraised value of the Assets as of 31 August 2024 was RMB82,886,461.00, among which RMB4,547,466.00 was attributable to the structures and RMB78,338,995.00 was attributable to the coal-fired boilers and ancillary equipment.

According to the Letter from the Board, as at the Valuation Date, the book value of the Assets amounted to RMB42,111,854.46. The difference between the appraised value and the book value was mainly attributable to:

- (a) the increase in the original value of equipment is mainly due to the continued price increase in the PRC whereby the prices in the materials market have shown an upward trend, the direct costs of construction projects, labour costs and prices of machineries also increase simultaneously, resulting in an increase in the value of the replacement cost of the Assets under appraisal; and
- (b) differences in the depreciation rate adopted by Chuncheng Investment in calculating the net book value and the integrated newness rate adopted by the Valuer in the valuation process. Generally, the period adopted in the valuation which takes into account the physical state of the equipment’s effective usability is longer than the useful life adopted by Chuncheng Investment determined in accordance with applicable accounting standards. For instance, some equipment can continue to operate normally even when it has surpassed its useful life. For illustration purpose only, the useful life adopted by Chuncheng Investment in calculating the net book value in accordance with applicable accounting standards is 5 years for electronic equipment and 10 years for machinery and equipment while the economic life ranged from 8 to 20 years and the used life of the respective assets ranged from 0.67 to 21.85 years.

### (1) *Valuer’s qualification and independence*

For our due diligence purpose, we have obtained and reviewed (i) the terms of engagement between the Valuer and the Company; (ii) the Valuer’s work scope for preparing the Valuation Report; (iii) the Valuer’s qualifications and experience in relation to the

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preparation of the Valuation Report; and (iv) track records on other valuations conducted by the Valuer. We noted from the engagement letter entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report. Furthermore, based on the relevant information provided by the Valuer and our interview with them, we are satisfied with their qualifications for preparing the Valuation Report. We also noted that the personnel in charge and signing the Valuation Report is a practicing member of China Appraisal Society with over 20 years of valuation experience, particularly in asset or equity acquisitions for state-owned enterprises. The Valuer also confirmed that they are independent to the Group and Chuncheng Investment.

### (2) *Valuation's methodology*

We noted from the Valuation Report that the Assets consist of (i) structures such as walls and peak-shaving chimney and (ii) coal-fired boilers and ancillary equipment, and the value of the Assets was determined based on the cost approach. We further reviewed and inquired about the methodology, basis, and assumptions used in the Valuation Report. The Valuer has considered three generally accepted appraisal approaches, namely, income approach, market approach and cost approach.

The income approach in asset value appraisal refers to the appraisal approach that determines the value of an asset by capitalizing or discounting the expected earnings of the asset. The income approach measures the value of an asset from the perspective of the profitability.

The market approach in asset value appraisal refers to the appraisal approach that compares the appraised subject with comparable assets or assets with transaction cases in the market to determine the value of the appraised subject.

The cost approach in asset value appraisal is as follows. Firstly, the replacement cost is determined by all cost required to re-construct a brand-new appraised asset under the current condition. Then the newness rate is determined by the comparison between the appraised asset and the brand-new one. The appraised value is determined by the replacement cost multiplying the newness rate.

As discussed with the Valuer, the Assets, which include (i) structures such as walls and peak-shaving chimney and (ii) coal-fired boilers and ancillary equipment, are unable to generate income individually. Furthermore, for the Assets as a whole, it is difficult to quantify costs and expenses related to labor, management and operation, land, and boilers that are assigned to the Assets in monetary terms, the estimation of which involves a variety of assumptions and improper assumptions will impose significant impact on the fair value. Therefore, the income approach is not appropriate for this appraisal. As advised by the Valuer, the market approach typically appraises assets collectively rather than individually. The market approach is unsuitable in this case due to the difficulty in collecting transaction records of

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assets similar to the subject of appraisal in the market. The cost approach, which takes into account the physical deterioration and all relevant forms of obsolescence and optimisation, is an appropriate approach for appraising the Assets. In light of the above, we concur with the Valuer's view that the income approach and the market approach are considered less suitable than the adopted cost approach.

The formulae adopted by the Valuer in arriving at the appraised value of the Asset are as follows:

Appraised value = Replacement cost × Integrated newness rate

Integrated newness rate = (Newness rate determined by the survey method × 60% + Newness rate determined by the lifetime method × 40%)

Newness rate determined by the lifetime method = (economic life – used life) ÷ economic life

### (3) *Analysis on integrated newness rate*

As discussed with the Valuer, the economic life of the Assets was referenced from the Handbook of Common Methods and Parameters for Asset Valuation\* (資產評估常用資料與參數手冊). We obtained and reviewed the data used by the Valuer for appraising the structures and boilers, which aligns with their methodology.

The newness rate determined by the survey method involved scoring the structures through site inspections based on (i) the completeness of the main structure and (ii) its functionality for business operations. For the coal-fired boilers and ancillary equipment, scoring was primarily based on (i) degrees of corrosion and scale, (ii) deformation and breakage, (iii) furnace bar operation, (iv) the frequency of inspections on instruments and safety valves, (v) abnormal heating and vibration, and (vi) boiler outlet vapor pressure. We also obtained and reviewed the scoring records for sampled assets and inspection photos of the Valuer's site visit.

Furthermore, we inquired with the Valuer about the basis for the weighting rate of the integrated newness rate. According to the Valuer, the newness rate determined by the lifetime method is more theoretical and does not take account of physical condition of a specific asset. The limitation is addressed by incorporating the survey method, which reflects the actual condition of the assets. As a result, a greater weighting is assigned to the newness rate determined by the survey method in the valuation process. Additionally, our online research indicated that a weighting of 40% for the newness rate determined by the lifetime method and 60% for the newness rate determined by the survey method is considered a practical valuation norm in the industry. This approach balances theoretical assessments with the tangible condition of the assets being evaluated.

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According to the Letter from the Board, of the 5 structures under valuation, the economic life ranged from 20 to 30 years and the used life of the respective assets ranged from 1.67 to 20.35 years. The integrated newness rate adopted by the Valuer for the valuation of “fixed assets — structures” ranged from 21% to 94%. Of the 527 equipment under valuation, the economic life ranged from 8 to 20 years and the used life of the respective assets ranged from 0.67 to 21.85 years. The integrated newness rate adopted by the Valuer for the valuation of “fixed assets — equipment” ranged from 15% to 97%.

Set out below are further information in relation to the top 5 equipment item with the highest appraised value:

Equipment item	Appraised value (RMB)	Net book value (RMB)	Newness rate determined by the lifetime method	Newness rate determined by the survey method
1. Boiler #4–6 Public desulfurization tower	10,474,082.00	4,161,039.08	54%	65%
2. Public desulfurization tower	4,807,449.00	2,065,731.65	54%	60%
3. Boiler #1	4,370,610.00	2,876,561.72	67%	65%
4. Dust collector #4	3,817,130.00	1,625,921.94	54%	60%
5. Boiler #6	3,642,175.00	2,080,747.19	36%	30%

We obtained a full list of the appraised Assets, and noted that the peak-shaving chimney and walls have been used for approximately 18 to 20 years, while the coal storage yard has been used for approximately 2 years. Of the 527 coal-fired boilers and ancillary equipment, 133 pieces have been utilized for less than 10 years with an appraised value of approximately RMB52.5 million, whereas 394 were used for more than 10 years with an appraised value of approximately RMB25.8 million. Notably, more than 80% of the total appraised value of equipment is derived from desulphurization towers, dust collectors, and boilers. The desulphurization towers and dust collectors have been used for approximately 7 to 9 years whereas the boilers have been used for approximately 7 to 20 years. As discussed with the Valuer, as economic life of an asset does not account for factors such as maintenance, long-aged equipment can remain operational with adequate maintenance even if its used life exceeds its economic life.

Approximately 18.5% of the equipment, in terms of appraised value, was evaluated with a higher newness rate determined by the lifetime method compared to the survey method. Conversely, approximately 64.3% of the equipment was evaluated at a higher newness rate determined by the survey method by less than 20% relative to the lifetime method. Additionally, approximately 7.9% of the equipment was assessed with a higher newness rate determined by the survey method by more than 20% compared to lifetime method, while approximately 9.2% of the equipment has been utilized beyond its economic life resulting in a

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theoretical negative newness rate determined by the lifetime method. The useful life of equipment varies based on its type, quality, usage conditions, and maintenance practices. The newness rate determined by the survey method is generally higher than that determined by the lifetime method, as the survey method takes account of maintenance whereas the lifetime method does not. As regular maintenance has been conducted on aged equipment, higher newness rates determined by the survey method as compared to lifetime method were adopted based on the actual state and the operation efficiency of such equipment. For equipment that has reached its economic life but remains in normal use, the Valuer adopted a 15% integrated newness rate, which aligns with the industry norm developed based on previous Notice on Forwarding the Opinions on the Operating Procedure for Asset Appraisal (for Trial Implementation) (No.23 [1996] of the Office of the State-owned Assets Administration Bureau)\* (國資辦發[1996]23號國家國有資產管理局關於轉發《資產評估操作規範意見(試行)》的通知), which stipulated that the newness rate of assets under normal operation should not be less than 15% and that the appraised value should not fall below 15% of the replacement cost.

#### (4) *Analysis on replacement costs*

According to the Letter from the Board, there are a total of 5 structures under valuation and the replacement cost ranged from RMB162,000 to RMB3,630,480. As part of our work performed on the replacement cost, we obtained the valuation workings for all structures and understood that the replacement cost primarily comprises (i) construction costs of the structures, (ii) upfront and other costs including those related to survey and design, feasibility studies, supervision on construction projects, and construction management, and (iii) opportunity cost of capital. According to the Valuer, the major factors considered in determining the appraised value of structures are commonly used parameters in the replacement cost approach. In this regard, we have (i) reviewed the relevant sources of information and calculations; (ii) discussed with the Valuer the basis and assumptions for the key factors; and (iii) noted that the estimated construction costs per square metre for the coal storage yard were determined with reference to the Construction Project Cost Index of Changchun for the first half of 2024\* (2024年上半年長春市建設工程造價指數指標), and the costs for peak-shaving chimney and walls were based on price inquiries and adjusted with reference to materials used and conditions. We obtained the Valuer's price inquiry records containing the supplier's website, contact person, pricing details, and dimensions. Furthermore, we obtained a breakdown of upfront and other costs and noted that these fees were referenced to the Circular of the State Planning Commission on the Issuance of Provisional Regulations on Consultation Fees for Preliminary Work on Construction Projects\* (《國家計委關於印發建設項目前期工作諮詢收費暫行規定的通知》), the Provisions for the Management of Construction Costs for Construction Projects\* (《基本建設項目建設成本管理規定》) published by Ministry of Finance of the People's Republic of China, the Regulations on the Administration of Engineering Survey and Design Charges\* (《工程勘察設計收費管理規定》) published by the State Planning Commission and the Ministry of Construction, and the Regulations on the Administration of Construction Supervision and Related Services Charges\* (《建設工程監理與相關服務收費管理規定》) published by the National Development and



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Reform Commission and the Ministry of Construction. Additionally, the opportunity cost of capital is determined based on (i) 50% of the aggregate of construction costs and pre-construction engineering fees assuming that the investment is made evenly over the construction period; and (ii) interest rate with reference to the loan prime rate (“LPR”) published by the National Interbank Funding Center. We conducted an online search and noted on the website of the People’s Bank of China that the one-year LPR was 3.35% and the over-five-year LPR was 3.85% as of 20 August 2024, which is consistent with the Valuer’s calculations.

According to the Letter from the Board, there are a total of 527 equipment under valuation and the replacement cost ranged from RMB868 to RMB17,170,626. As advised by the Valuer, a total of 527 pieces of equipment were appraised, comprising 9 coal-fired boilers and 518 ancillary equipment. We obtained a full list of equipment and reviewed valuation workings for the top 10 original fair value (before adjustment for the integrated newness rate) and the top 10 net fair value (adjusted for the integrated newness rate) equipment (“Samples”). Since the appraised value of the Samples covered over 60% of the total appraised value, we believe we have reviewed a sufficient number of samples in arriving at our conclusion. We further noted that the replacement costs of the 9 coal-fired boilers were based on market purchase prices. We obtained the price inquiry records for all 9 coal-fired boilers from the Valuer and noted that the purchase costs mainly comprise price of the boiler and ancillary parts, transportation expenses, installation fees, and other upfront costs to bring the equipment to the condition ready for use.

As discussed with the Valuer, the replacement cost of the remaining equipment is referenced to the original purchase price and adjusted according to the Industrial Producers’ Ex-factory Price Index\* (工業生產者出廠價格指數) published by National Bureau of Statistics. As advised by the Management, the ancillary equipment to be acquired are generally high-quality products featuring optimized combustion control system and there has been no noticeable technological advancement. We further discussed with the Valuer and understood that there are two commonly used methods for calculating replacement cost: renewal replacement cost and restoration replacement cost. Renewal replacement cost represents the cost of purchasing and constructing a new asset with the same functions as the appraisal object, utilizing new materials, modern construction or manufacturing standards, and upgraded designs, specifications and technologies at current price levels. In contrast, restoration replacement cost involves the cost of repurchasing and building a new asset identical to the appraisal object, using the same materials, construction or manufacturing standards, design, specifications and technology as the original asset, all at current price levels. Due to the difficulty in collecting transaction records for assets similar to the boiler ancillary equipment such as desulphurization towers and dust collectors in the market, the Valuer opted for the restoration replacement cost method. Furthermore, for assets whose design, materials, and specifications remain consistent for decades, there is no material difference in value between the two replacement cost methods. We conducted an online search and noted that there are two categories of replacement cost as outlined in the Code of Practice on Asset Appraisal — Asset Appraisal Methods published by China Appraisal Society in



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December 2019, stating that the restoration replacement cost applied by reproducing the appraisal object in its original condition. Accordingly, obsolescence due to technological advancement was not considered when adjusting the price according to relevant price index. We also gathered data from several sources including Indicators of Equipment Installation and Commissioning Rates\* (機器設備安裝調試費率指標參考), Indicator of Domestic Equipment Transportation And Miscellaneous Charges\* (國產設備運雜費參考指標), and Estimated Domestic Equipment Base Fee Indicators\* (國內設備基礎費概算指標) and noted that the information is generally in line with the valuation results.

We also obtained detailed explanation of the Valuation Report from the Valuer and based on our understanding on the workings in arriving at the Valuation, we did not identify any major factors that would lead us to question the fairness and reasonableness of the methodology, principal basis, and parameters used in the Valuation Report.

Having considered (i) the valuation methodology adopted by the Valuer for determining the fair value of the Assets is in line with market practice and the underlying basis and assumptions are reasonable; (ii) the appraised value as set out in the Valuation Report serves as an appropriate benchmark for assessing the consideration of the Assets; (iii) the Consideration is equal to the valuation provided by the Valuer; and (iv) our independent work performed on the Valuation Report, we are of the view that the consideration of the Assets is fair and reasonable.

Based on the above, we concur with the Directors' view that the terms of the Second Assets Transfer Agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### ***3.2 Reasons for and benefits of the Proposed Acquisition***

As disclosed in the Letter from the Board, since the Company is mainly engaged in heating service business and the Assets are used for heat production purposes, the Company is of the view that the Proposed Acquisition would enable the Group to further enhance its heat production efficiency, optimize the structure of the Group's heat supply business, increase its capabilities on heat source protection, significantly reduce the amount of continuing connected transactions between the Group and Chuncheng Investment Group as well as minimize any potential competition between the Group and Chuncheng Investment Group, which in turn is beneficial to the Group's overall strategic development.

Chuncheng Investment has undertaken that upon Completion, it shall grant the Company a right of use of the premises which the Assets currently situate at nil consideration. Chuncheng Investment also warranted that the Company's operations on the aforementioned premises will not be affected by issues on land ownership. Upon Completion, the Assets will be solely operated, maintained and supervised by the Group's employees.

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*To enhance its heat production efficiency, optimize the business structure and increase its capabilities on heat source protection*

Following the acquisition of structures, coal-fired boilers, and ancillary equipment in the Dongling and Jingyue thermal power stations, the Group is better positioned to control a greater share of heat production resources. As discussed with the Management, the coal-fired boilers in these districts serve as peak-shaving boilers, maintaining back-up heating capacity in the heating zone during peak periods or in emergencies. In accordance with the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》) implemented in October 2018, heat service providers using heat procured from local cogeneration plants are required to maintain peak-shaving boilers to address any suspension or shortage in heat supply from the cogeneration plants. Moreover, the peak-shaving boilers in the Dongling and Jingyue thermal power stations are expected to provide a heat supply of approximately 680,000 GJ per year. Acquiring these Assets from Chuncheng Investment will enhance the quality of the Group's heat supply in both districts, thereby strengthening its capacity for heat source protection.

Further, the provision of heat supply services heavily relies on the heating facilities and infrastructure such as heating pipeline network and boiler facilities, which are subject to the limitation of underground space necessary for pipelines and the local government's overall development plan. According to the A-share listing application prospectus published in October 2023, the Group's heating service area primarily covers inner urban regions of Changchun, including Dongling and Jingyue districts. As advised by the Management, the Group's primary pipeline network is connected to the peak-shaving boilers in the Dongling and Jingyue thermal power stations, allowing heat delivery without the need to construct new pipelines which may incur significant costs and time. According to the Letter from the Board, upon Completion, Chuncheng Investment shall grant the Company a right of use of the premises which the Assets currently situate at nil consideration and the Assets will be solely operated, maintained and supervised by the Group's employees. We have obtained a letter of undertaking issued by Chuncheng Investment, which confirms that the Company is entitled to the right to use the premises where the Assets are located at no cost. Chuncheng Investment has also warranted that the Company's operations on the aforementioned premises will not be affected by issues on land ownership. Additionally, the Company has secured a PRC legal opinion concerning the transfer of the Assets through a non-public method as set out under sub-section headed "3.1 principal terms of the Second Assets Transfer Agreement". Furthermore, following the Proposed Acquisition, the Company will apply to register the use of the boilers with the Changchun Administration for Market Regulation. By consolidating heat sources and allocating them effectively, the Group can enhance production efficiency and optimize its business operations through a stable heat supply.

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### *To reduce the amount of continuing connected transactions*

As disclosed in the circular of the Company dated 7 November 2023, the Company entered into the 2024–2026 heat procurement framework agreement with Chuncheng Investment on 11 October 2023, pursuant to which Chuncheng Investment Group shall supply heat to the Group. As advised by the Management, the connected transaction amount was approximately RMB117.3 million for FY2022 and RMB83.0 million for FY2023, and the Proposed Acquisition is expected to reduce the annual connected transaction amount by approximately RMB38.5 million. This will result in a smaller size of continuing connected transactions, leading to lower percentage ratios, which consequently may exempt the Company from the circular and shareholders' approval requirements, ultimately reducing compliance costs.

### *To minimize any potential competition*

According to the Letter from the Board, Chuncheng Investment and its subsidiaries are mainly engaged in property management, water supply, pipeline manufacturing, heat production and supply, sale of industrial steam and financial investments. Through the Proposed Acquisition, the Group will incorporate certain structures, coal-fired boilers, and ancillary equipment located in the Dongling and Jingyue thermal power stations for heat production. The Proposed Acquisition marks a step toward further integrating Chuncheng Investment Group's heat supply business in Changchun into the Group, thereby reducing potential business competition between Chuncheng Investment Group (excluding the Group) and the Group in this business sector. We concur with the Management's view that the Proposed Acquisition would reduce potential competition between the Group and Chuncheng Investment Group, ultimately benefiting Group's overall strategic development.

### **3.3 Possible financial effects of the Proposed Acquisition**

#### *Earnings*

The Assets mainly consist of peak-shaving boilers, which are able to supply heat through the Group's distribution pipelines, one of the Group's major business segments. Thus the Proposed Acquisition is expected to have positive effect on the Group's earnings. As confirmed by the Management, the taxes and professional fees related to the Proposed Acquisition will have a minimal effect on the Group's net income.

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### *Net asset value*

As discussed with the Management, upon Completion, the Group's cash and cash equivalents will decrease by the amount of the Consideration, while fixed assets will increase. Since the Consideration matches the appraised value of the Assets, the Group's total assets would have remained unchanged. Although there are associated taxes and professional fees from the Proposed Acquisition, their impact on liabilities and net assets is minimal.

### *Working capital*

As set out in the Letter from the Board, the Consideration of RMB82,886,461.00 will be financed by the Group's existing internal resources and settled in cash. It is anticipated that the Group's bank balance will decrease by the amount of the Consideration upon the Completion. According to the Management, based on the cash flow and earnings forecast for 2024 and 2025, the outflow of the Consideration will not have a material adverse effect on the Company's business operations.

## 4. The provision of the Loan

### 4.1 *Principal terms of the Loan*

Details of the Loan are set out in the Letter from the Board. The principal terms of the Loan are as follows:

Date	1 November 2024
Lender	the Company
Borrower	Chuncheng Investment
Amount of the Loan	Not more than RMB300 million

During the term of the Loan, Chuncheng Investment may draw down the Loan in one or more tranches by providing the Company with a drawdown request (the “**Drawdown Request**”), specifying the intended drawdown amount. Within 15 business days of receiving the Drawdown Request, the Company shall inform Chuncheng Investment whether or not the Company accepts such Drawdown Request and make available such funds to Chuncheng Investment if such Drawdown Request is accepted. The Company has absolute discretion in determining whether to accept any Drawdown Request.

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Interest rate	4.5% per annum
	<p>The interest rate was arrived at after arm's length negotiations between the Company and Chuncheng Investment having taking into consideration the prevailing market interest rates.</p> <p>Interest shall be payable by Chuncheng Investment to the Company by the 15th calendar day of the month following the end of each quarter.</p>
Term of the Loan	From the date when the Independent Shareholders approved the Loan Agreement at the EGM up to 31 December 2029 (the " <b>Maturity Date</b> ") (both days inclusive)
Maturity and repayment	<p>Chuncheng Investment shall repay the Loan together with any accrued interest in full on the Maturity Date.</p> <p>Upon obtaining the Company's prior consent, Chuncheng Investment may repay the Loan or any part thereof at any time before the Maturity Date without penalty.</p> <p>Chuncheng Investment acknowledged that the Company has the right to require Chuncheng Investment to repay the Loan or any part thereof at any time before the Maturity Date due to the Company's business needs or capital market operation requirements.</p>
Purpose of the Loan	The Loan is provided to Chuncheng Investment for the "Retreat from the City and Enter into the Suburbs Project" (退城進郊項目) (the " <b>Retreat Project</b> "), transformation of old pipe network(s) (the " <b>Transformation Project</b> "), as well as to supplement Chuncheng Investment Group's general working capital.

To assess the fairness and reasonableness of the key terms of the Loan Agreement, we have conducted research, using our best endeavours, of recent similar transactions in which listed companies on the Stock Exchange or their subsidiaries provided loan or financial assistance to controlling shareholder or its controlled company. Based on our best effort and as far as we are aware, we have identified 17 comparable transactions (the "**Comparables**"), which meet the aforementioned criteria and were announced by companies listed on the Stock Exchange between 1 November 2023 and 31 October 2024 (the "**Comparison Period**"), being one year, to provide a general reference for recent market practices in relation to the key terms of the Loan Agreement under similar market condition. We believe that the Comparison

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Period is appropriate since it offers a reasonable and meaningful sample size for our analysis and the Comparables collectively provide a fair and representative overview of the market practice.

Independent Shareholders should be aware that (i) the principal businesses, operations, size of assets, and prospects of the Company may not be exactly the same as those of the Comparables; and (ii) the credit risk associated with the underlying borrowers of the Comparables may not be the same as that of Chuncheng Investment. Notwithstanding the above, after considering that (i) all Comparables are similar in nature to the Loan Agreement, namely provision of loan or financial assistance to a controlling shareholder or its controlled company by a listed issuer on the Stock Exchange or its subsidiary; (ii) all of underlying transactions of the Comparables occurred within one year from the date of the Loan Agreement, reflecting recent market practices in respect of the interest rate and other terms charged to controlling shareholders, thereby offering a more relevant reference; and (iii) to the best of our knowledge, the list of the Comparables is exhaustive based on the specified criteria, we consider the Loan to be comparable to the Comparables, and our assessment on the Comparables serves as a general reference to the recent market practice in respect of the transactions with controlling shareholders for loans or financial assistance under the current market conditions and sentiment so as to assess the fairness and reasonableness of the Loan Agreement. Set out below are the details of the Comparables:

No.	Date of announcement	Name of company	Stock code on the Stock Exchange	Principal amount (Note 1)	Term (year) (Note 2)	Interest rate p.a.	Guarantee	Pledge
1	25 Oct 2024	China Shuifa Singyes New Materials Holdings Limited	8073	RMB30,000,000	3.0	6.00%	No	No
2	7 Oct 2024	Minshang Creative Technology Holdings Limited	1632	HKD9,500,000	1.0	8.00%	No	No
3	30 Sep 2024	S-Enjoy Service Group Co., Limited (Note 3)	1755	RMB1,120,000,000	3.0	6.05%	No	Yes
4	3 Sep 2024	Regal Hotels International Holdings Limited (Note 4)	78	HKD857,000,000	11.0	5.85%	Yes	Yes
5	16 Aug 2024	Henan Jinyuan Hydrogenated Chemicals Co., Ltd.(Note 5)	2502	RMB30,000,000	1.0	5.00%	No	No
6	25 Jul 2024	Chinney Alliance Group Limited (Note 6)	385	HKD250,000,000	2.0	6.00%	No	No
7	23 Jul 2024	A-Living Smart City Services Co., Ltd.	3319	RMB51,749,360	0.4	3.45%	No	Yes
8	19 Jul 2024	MicroPort CardioFlow Medtech Corporation (Note 7)	2160	RMB10,000,000	2.0	3.45%	No	Yes
9	2 Jul 2024	iMotion Automotive Technology (Suzhou) Co., Ltd.	1274	RMB11,000,000	3.0	3.45%	No	No
10	26 Jun 2024	Arrail Group Limited (Note 8)	6639	USD11,000,000	2.5	5.50%	No	Yes
11	17 Jun 2024	JH Educational Technology INC.	1935	RMB55,000,000	2.0	3.10%	No	No
12	11 Jun 2024	China East Education Holdings Limited (Note 9)	667	RMB150,000,000	1.6	7.00%	Yes	No
13	28 Dec 2023	Readboy Education Holding Company Limited (Note 10)	2385	RMB5,000,000	1.6	3.95%	No	No
14	18 Dec 2023	Wai Yuen Tong Medicine Holdings Limited	897	HKD100,000,000	5.0	10.00%	No	No

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No.	Date of announcement	Name of company	Stock code on the Stock Exchange	Principal amount (Note 1)	Term (year) (Note 2)	Interest rate p.a.	Guarantee	Pledge
15	1 Dec 2023	ZTO Express (Cayman) Inc. (Note 11)	2057	RMB500,000,000	6.0	5.00%	Yes	No
16	1 Dec 2023	AAC Technologies Holdings Inc	2018	RMB74,000,000	3.0	3.45%	No	No
17	6 Nov 2023	China Taiping Insurance Holdings Company Limited (Note 12)	966	HKD1,250,000,000	10.0	5.80%	No	No
			min	RMB5,000,000	0.4	3.10%		
			mean	RMB254,982,315	3.4	5.36%		
			median	RMB74,000,000	2.5	5.50%		
			max	HKD1,250,000,000	11.0	10.00%		
		The Company	1853	Not more than RMB300,000,000	5	4.5%	No	No

Source: website of the Stock Exchange

*Notes:*

- (1) For the revolving loan or loan framework agreements, the maximum loan amount is considered the principal amount. For illustration purpose only, amounts denominated in HKD have been translated into RMB at an exchange rate of HKD1 = RMB0.9, and amounts denominated in USD have been translated into RMB at a rate of USD1 = RMB7.1.
- (2) For the extension loan agreements, the total length of loan period is used for the term of loan after taking into account the original loan agreements.
- (3) As disclosed in the announcement of S-Enjoy Service Group Co., Limited (“**S-Enjoy**”) dated 30 September 2024, S-Enjoy and the borrower entered into (i) a loan framework agreement with an aggregate principal amount of RMB1,000.0 million and (ii) a loan agreement with a principal amount of RMB120.0 million. Since both agreements were made by the same parties and shared the same interest rate and maturity date, the total amount of RMB1,120 million is used for the principal amount. The interest rate was the higher of: (i) the loan prime rate (“**LPR**”) for loans of more than one year (inclusive) and less than five years (if any) published by the People’s Bank of China (“**PBOC**”) applicable on the date of drawdown; and (ii) the fixed lending rate of 6.05% per annum. According to the Announcement on Loan Prime Rate (September 20, 2024) published by the PBOC, the one-year LPR was 3.35% and the over-five-year LPR was 3.85%. Accordingly, 6.05% was selected for the interest rate.
- (4) As disclosed in the joint announcement of Regal Hotels International Holdings Limited (“**Regal**”) and Cosmopolitan International Holdings Limited dated 3 September 2024, the maturity date had been extended twice, with the final maturity date set for October 2027. The original loan facilities were granted in 2016, resulting in a total loan term of approximately 11 years. The revised interest rate was 1-month HIBOR plus 1.95% per annum. According to The Hong Kong Association of Banks, one-month HKD Interest Settlement Rates were 3.89929% as of 3 September 2024. Accordingly, the applicable interest rate was approximately 5.85%.
- (5) As disclosed in the announcement of Henan Jinyuan Hydrogenated Chemicals Co., Ltd. dated 16 August 2024, a 51% subsidiary of Henan Jinyuan Hydrogenated Chemicals Co., Ltd. entered into the loan agreement on 2 January 2024 with the borrower for a term from 2 January 2024 to 30 June 2024.



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Subsequently on 30 June 2024, the renewal agreement was entered into to extend the loan for a further term from 1 July 2024 to 31 December 2024. Accordingly, the total loan term amounted to approximately 1 year.

- (6) As disclosed in the joint announcement of Chinney Alliance Group Limited and Chinney Kin Wing Holdings Limited dated 25 July 2024, the loan agreement has a term of twelve months. The borrower may seek an extension for a further twelve months provided that the borrower shall have given to the lender a written request with no less than one month prior to the date falling twelve months from the drawdown date. The lender shall accordingly provide a written reply (which shall not be unreasonably withheld) upon receipt of such request. Should the lender fail to reply in writing by the date falling twelve months from the drawdown date, the request for extension is deemed to be granted and in such case, the maturity date will become the date falling twenty-four months from the drawdown date. Given the borrower's right to extend, a total term of 2 years is selected.
- (7) As disclosed in the announcement of MicroPort CardioFlow Medtech Corporation dated 19 July 2024, the interest rate for the loan was equivalent to the one-year LPR on the date of the loan agreement. According to the Announcement on Loan Prime Rate (June 20, 2024) published by the PBOC, the one-year LPR was 3.45%. Accordingly, the applicable interest rate was 3.45%.
- (8) As disclosed in the announcements of Arrail Group Limited dated 29 September 2022, 27 June 2023, and 26 June 2024, the term of the loan was extended first from 9 months to 18 months, and then to 30 months. The interest rate was also revised from 4.5% to 5.5% per annum. Therefore, 30 months and 5.5% are selected as the term and interest rate respectively to reflect the latest status of the loan.
- (9) As disclosed in the announcement of China East Education Holdings Limited dated 11 June 2024, a revolving loan facility with a maximum daily balance (excluding the accrued interests) of RMB50 million was granted to each of the three borrowers, all of whom are directors and substantial shareholders of the company, with one being the controlling shareholder. The total maximum daily balance (excluding the accrued interests) was RMB150 million. According to the 2023 annual report of China East Education Holdings Limited, the three borrowers are cousins of each other. Accordingly, RMB150 million is chosen for the principal amount of the loan.
- (10) As disclosed in the announcement of Readboy Education Holding Company Limited dated 28 December 2023, the term of the loan had been extended, changing the loan period from 17 May 2023 to 31 December 2023 to a new period from 17 May 2023 to 31 December 2024. Accordingly, the total loan term amounted to approximately 1.6 years.
- (11) As disclosed in the announcement of ZTO Express (Cayman) Inc. dated 1 December 2023, the original loan agreement was entered into in December 2020 for a term of 36 months. On 1 December 2023, a loan extension agreement was executed for an additional term of 36 months. Accordingly, the total loan term amounted to 6 years.
- (12) As disclosed in the announcement of China Taiping Insurance Holdings Company Limited dated 6 November 2023, the original loan agreements were made in November 2018 for a term of 60 months. On 6 November 2023, new loan agreements were entered into for a term of 60 months. Accordingly, the total loan term amounted to 10 years. Although there are three new loan agreements, they were executed between three subsidiaries of China Taiping Insurance Holdings Company Limited and the same borrower. Accordingly, the aggregate amount of HK\$1,250 million is used for the principal amount of the loan.



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### *Principal*

As illustrated in the table above, the principal loan amount of the Comparables ranges from RMB5 million to HK\$1,250 million with an average of approximately RMB255.0 million. The principal amount of up to RMB300 million under the Loan Agreement falls within this range. Although the maximum principal amount of the Loan is higher than the average, the actual amount to be drawn under the Loan Agreement will depend on the Company's cash flow position and working capital needs and the Company has absolute discretion in determining whether to accept any Drawdown Request. Therefore, we concur with the Directors' view that the principal amount of the Loan is fair and reasonable so far as the Independent Shareholders are concerned.

### *Interest rate*

According to the Letter from the Board, the interest rate was arrived at after arm's length negotiations between the Company and Chuncheng Investment having taking into consideration the prevailing market interest rates.

As shown in the table above, the interest rates of the Comparables range from 3.10% to 10.00% per annum, with an average of approximately 5.36% and a median of 5.5% per annum. The interest rate of the Loan falls within this range but is lower than both the average and the median of the Comparables. However, the Comparables include loans denominated in USD, HKD, and RMB, with USD and HKD typically exhibiting higher interest rates than RMB mainly attributed to the continuous increase in the federal fund rate from February 2022 to August 2024. According to the Board of Governors of the Federal Reserve System (US), the Federal Funds Effective Rate rose steadily from 0.08% in February 2022 to 5.33% in August 2024. In contrast, the LPR, as reported by the PBOC, declined continuously from 3.7% in February 2022 to 3.35% in August 2024. For analytical purposes, among the Comparables, there are eleven loans denominated in RMB, with a median interest rate of 3.95% and an average interest rate of approximately 4.54%. The interest rate of the Loan is higher than the median and close to the average. Additionally, we understood from the Management that the interest rate for the Group's borrowings as of 30 June 2024 was 3.9% p.a., which is lower than that of the Loan. Furthermore, Chuncheng Investment is a state-owned company established on 28 April 1998 and wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會). Accordingly, we concur with the Directors' view that the interest rate is fair and reasonable so far as the Independent Shareholders are concerned.

### *Term and repayment*

As further illustrated in the table above, the loan term of the Comparables ranges from 0.4 year to 11 years after considering any extensions. The term of the Loan, which is approximately 5 years, falls within this range. Additionally, as advised by the Management, the "Retreat from the City and Enter into the Suburbs Project" (退城進郊

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項目) and the transformation of old pipe network(s) project (老舊管網改造項目) for which the Loan will be utilized are anticipated to be completed in 2026 and 2028, respectively. Therefore, we concur with the Directors' view that the term of the Loan under the Loan Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

According to the Letter from the Board, upon obtaining the Company's prior consent, Chuncheng Investment may repay the Loan or any part thereof at any time before the Maturity Date without penalty. Chuncheng Investment acknowledged that the Company has the right to require Chuncheng Investment to repay the Loan or any part thereof at any time before the Maturity Date due to the Company's business needs or capital market operation requirements. We have obtained a letter of undertaking issued by Chuncheng Investment, which confirms that the Company is entitled to the right to request early repayment, and Chuncheng Investment has undertaken to fully cooperate with the Company regarding the repayment.

### *Guarantee and pledge*

As shown in the table above, out of the 17 Comparables, 3 loans were secured by personal or corporate guarantees and 5 were secured by asset or equity pledges. Thus, it is not uncommon in the market for listed companies in Hong Kong to grant unsecured loans to their controlling shareholder without guarantees. Furthermore, Chuncheng Investment is a state-owned enterprise with over 20 years of history. Therefore, we believe that it is justifiable for the Loan to be granted without guarantees or security.

Having considered (i) the interest rate of 4.5% per annum under the Loan Agreement is within the range of the Comparables and above the LPR quoted by the PBOC as well as the Group's funding cost, (ii) Chuncheng Investment's credibility as a state-owned company established on 28 April 1998 and wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會), (iii) the financing needs and completion timelines of the projects for which the Loan will be utilized; and (iv) the stable returns the Loan will provide, we are of the view that the terms of the Loan Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### **4.2 Reasons for and benefits of the provision of the Loan**

According to the Letter from the Board, the Loan is provided to Chuncheng Investment for the Retreat Project, the Transformation Project as well as for Chuncheng Investment Group's general working capital. Having taking into account the Company's current available cash balances, the Company considered it in the interests of the Company and its Shareholders as a whole to grant the Loan to Chuncheng Investment because the Loan could generate interest income to the Company on one hand and at the same time, the Group would be able

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to benefit from the improved heat supply efficiency brought by the Retreat Project and that neither the Retreat Project nor the Transformation Project would increase potential competition between the Group and Chuncheng Investment. In addition, given the interest rate to be charged by the Company in relation to the Loan (i.e. 4.5% per annum) is above the deposit interest rate offered by other banks (i.e. approximately 1.15% to 1.35% per annum), the Company is able to generate higher interest income through the provision of the Loan than depositing the cash with the banks.

According to with the Letter from the Board, the Group has been generating profits and maintains a relatively stable cash flow in recent years. Due to seasonable operating factors, the Group's cash balance is generally lower in the first half of the year because the heat supply period begins in October every year and the Group generally commences receiving heat fees from its customers in the second half of the year. Having considered the cash inflows generated during the heat supply period and taking into consideration the maximum amount of Loan to be provided to Chuncheng Investment, the Group still has sufficient working capital to support its daily operations.

According to the Letter from the Board, having considered Chuncheng Investment is a state-owned enterprise which is wholly-owned by Changchun State-owned Assets Supervision and Administration Commission, the Company is of the view that Chuncheng Investment has high debt repayment ability and operational stability. In particular, state-owned enterprises are the underpinning pillars in the socialist economy with Chinese characteristics and they play an irreplaceable economic role in maintaining national economic security and promoting high-quality development. The PRC Government has, from time to time, announced policies to support state-owned enterprises which are engaging in livelihood industries (such as heat supply) in the form of tax incentives, financial support, etc. to ensure that they continue to play the role as underpinning pillars in sustaining and stabilizing the growth of the national economy. In addition, based on the information provided by Chuncheng Investment to the Company, Chuncheng Investment has not defaulted any loans in recent years and certain large PRC banks have provided unsecured loans to Chuncheng Investment after their credit evaluation, which indicate Chuncheng Investment's good credit record. As such, the Company considered that it is common industry practice for loans provided to state-owned enterprises to be unsecured. Moreover, based on the information provided by Chuncheng Investment, Chuncheng Investment Group generated revenue of not less than RMB430 million for the year ended 31 December 2023 and had not less than RMB411 million cash balances and unutilized bank facilities in aggregate as at 30 June 2024. Based on the foregoing, while the Loan is unsecured, the Company still considered that the recoverability risk of the Loan is low and the terms of the Loan are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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### *Funding needs of Chuncheng Investment*

According to the Letter from the Board, the Retreat Project is a construction project undertaken by Chuncheng Investment which involves the provision of construction services by Chuncheng Investment to No. 2 Thermal Plant of Changchun City. As required by The Government of Changchun City, only wholly-owned stated-owned enterprises could undertake the construction work of the Retreat Project. As Chuncheng Investment is wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會), it is eligible to undertake the construction work of the Retreat Project. As discussed with the Management, the Retreat Project is to construct (i) a long-distance heat supply pipeline network extending approximately 35 kilometers from the suburban area to the urban area of Changchun, (ii) a water pumping station covering about 1 hectare; (iii) a pressure-isolation heat exchanger spanning approximately 2.3 hectares; and (iv) a primary network connecting DN1400 heat supply pipeline to DN1000 heat supply pipeline. The capital funds for the Retreat Project are estimated to be RMB2.7 billion, which significantly exceeds Chuncheng Investment's current cash position. We conducted an online search and found news articles from Changchun Urban Planning & Research Center (the "CUPR"), indicating that leaders from the CUPR and Chuncheng Investment discussed the siting plan for the heating pipelines and facilities in response to the Retreat Project during a seminar held on 27 May 2024. On 2 June 2024, the CUPR and Chuncheng Investment carried on an on-site investigation to identify key points and challenges along the proposed heating pipeline route. Additionally, we noted that Chuncheng Investment released an announcement on 8 August 2024 regarding quotation on physical exploration for No. 2 thermal power plant's construction of supporting pipe network for the Retreat Project. The Transformation Project is currently in the information collation and feasibility study phase, with estimated capital funds of around RMB200 million.

According to the Letter from the Board and as advised by the Management, the Retreat Project aims to optimize the urban layout and enhance the urban environment by relocating the No. 2 thermal power plant from the city of Changchun to a suburban area. As the Group also procures heat from the No. 2 thermal power plant, the Group would be able to benefit from improved heat supply efficiency through the enhanced pipeline network while not incurring additional costs associated with constructing the pipeline infrastructure. For the Transformation Project, the relevant service area differs from that of the Group. Furthermore, as disclosed in the Company's global offering document dated 27 September 2019, the Company entered into a non-competition agreement with Chuncheng Investment, which shall continue to be effective until the earlier of the occurrence of the following situations: (i) the date on which Chuncheng Investment and its subsidiaries, in aggregate, directly or indirectly hold less than 30% of the entire issued share capital of the Company; or (ii) the date on which the H Shares cease to be listed on the Stock Exchange, except that trading in the H Shares is temporarily

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suspended for any reason. Therefore, it is considered that the Retreat Project and the Transformation Project would not increase potential competition between the Group and Chuncheng Investment.

### *Liquidity of the Group*

According to the 2024 Interim Report, as at 30 June 2024, the Group had (i) current assets of approximately RMB1,019.5 million, primarily consisting of cash and cash equivalents of approximately RMB553.8 million, prepayments of approximately RMB176.2 million, trade receivables of approximately RMB155.2 million, and contract assets of approximately RMB53.5 million; (ii) a current ratio of 1.3 times, indicating that the Group has more current assets than current liabilities, thus ensuring sufficient liquidity to cover short-term obligations; and (iii) a negative gearing ratio as set out under sub-section headed “1.3 Financial position of the Group”, indicating that cash and cash equivalents exceeded total interest-bearing liabilities and thus the Group’s financial resources on hand is sufficient to cover its current borrowings.

According to the “Financial Information of the Group” in the Appendix I of the Circular, the Group’s bank borrowings amounted to RMB615,550,000 as of 31 October 2024. As advised by the Management, these bank borrowings bear an interest rate ranging from 3.2% to 3.4% per annum and were utilized to purchase heat sources prior to the commencement of heat supply period. Given the relatively low interest rates in the PRC, the Group tends to borrow from banks to capitalize on these favorable rates, bridging the time gap between receiving heat fees and procuring heat sources while maintaining a higher level of working capital. The Management believes relevant returns could exceed the funding cost. As stated in the sub-section headed “1.3 Financial position of the Group”, the Group’s cash and cash equivalents increased from approximately RMB1,030.2 million as at 31 December 2022 to approximately RMB1,111.0 million as at 31 December 2023, and subsequently decreased to RMB553.8 million as at 30 June 2024 mainly attributable to the seasonality of the heat supply business, as heat fees are generally collected in the second half of the year. Consequently, the Group usually records negative net cash flows from operating activities in the first half of the year. However, the Group has consistently realized positive cash flow from operating activities, ranging from approximately RMB124 million to RMB416 million annually since 2019. As advised by the Management, the Group’s cash and cash equivalents amounted to approximately RMB1.5 billion as of 31 October 2024. Furthermore, based on the Company’s cash flow and earnings forecast for 2024 and 2025, the projected net cash flows from operating activities for the year ending 31 December 2024 are expected to exceed RMB300 million, with cash and cash equivalents anticipated to be over RMB1 billion as of 31 December 2024.

Based on the above, the Management considered that the Group is in a healthy financial position with sufficient working capital for its daily operations. Furthermore, the grant of the Loan is contingent upon the Group maintaining sufficient working

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capital and the Company has absolute discretion in determining whether to accept any drawdown request from Chuncheng Investment. Therefore, the grant of the Loan by the Company to Chuncheng Investment will not materially impact on the Group's daily operations.

### *Generate interest income for the Company*

The grant of the Loan will enable the Company to generate a stable revenue and cashflow stream. The terms of the Loan Agreement (including the interest rate) have been negotiated on an arm's length basis between the Company and Chuncheng Investment, taking into account the prevailing market interest rates and practices. In addition, as advised by the Management, the interest rate as quoted by local commercial banks for time deposits normally ranges from 1.15% per annum to 1.35% per annum, which are lower than the interest rate of 4.5% per annum specified in the Loan Agreement. We have also performed online checking on the official websites of major commercial banks in the PRC, namely Bank of China, Industrial and Commercial Bank of China, China Construction Bank Corporation, and Agricultural Bank of China, and noted that the interest rates for time deposit with terms ranging from 1 to 5 years vary from 0.8% to 1.25% for lump-sum deposits with installment withdrawals, and from 1.05% to 2.65% for lump sum deposits with full withdrawals. These rates are below the interest rate set in the Loan Agreement. Therefore, we are of the view that the Group will benefit from receiving interest income from the Loan at a rate higher than the prevailing interest rate for time deposits in the PRC.

Having considered that (i) the funding needs of Chuncheng Investment for the Retreat Project and Transformation Project, (ii) the Group's sound liquidity position, (iii) the grant of the Loan will not have material impact on the Group's daily operations while providing stable interest income; and (iv) the interest rate under the Loan Agreement is higher than the market rate for fixed deposits offered by major commercial banks in the PRC, we concur with the Directors' view that the provision of the Loan pursuant to the Loan Agreement is in the interests of the Company and the Shareholders as a whole.

### **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the opinion that although the entering into of the Second Assets Transfer Agreement and the Loan Agreement was not in the ordinary and usual course of business of the Group, the terms of the Second Assets Transfer Agreement and the Loan Agreement are fair and reasonable and on normal commercial terms so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving (i) the Second Assets Transfer Agreement and the transactions contemplated thereunder; and (ii) the Loan Agreement and the transactions contemplated thereunder at the EGM.

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

*Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 16 years of experience in the field of corporate finance advisory.*



## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2023 and the six months ended 30 June 2024 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.cc-tp.com.cn](http://www.cc-tp.com.cn)). Please refer to the hyperlinks as stated below:

- Annual report of the Company for the year ended 31 December 2021 (pages 66 to 264)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0414/2022041400477.pdf>
- Annual report of the Company for the year ended 31 December 2022 (pages 60 to 254)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0424/2023042400610.pdf>
- Annual report of the Company for the year ended 31 December 2023 (pages 59 to 251)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0425/2024042501476.pdf>
- Interim report of the Company for the six months ended 30 June 2024 (pages 20 to 58)  
<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0924/2024092400335.pdf>

## 2. STATEMENT OF INDEBTEDNESS

As at the close of business of 31 October 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the indebtedness of the Group was as follows:

### (a) Interest-bearing bank borrowings

	<b>As at 31 October 2024</b>	
	<b>Unsecured</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings	<u>615,550</u>	<u>615,550</u>
Analyzed into:		
Within one year	<u>615,550</u>	<u>615,550</u>

The interest rates of the aforementioned bank borrowings range from 3.2% to 3.4%.



**(b) Bills payable**

	<b>As at 31 October 2024 Total RMB'000</b>
Bank's acceptance bill	<u>192,800</u>
Analyzed into:	
Within one year	<u>192,800</u>

**(c) Lease liabilities**

As at the close of business of 31 October 2024, the Group had the following lease liabilities which are related to properties leased by the Group for its operational needs:

	<b>As at 31 October 2024 RMB'000</b>
Lease liabilities — current	2,336
Lease liabilities — non-current	<u>5,830</u>
Total lease liabilities	<u>8,166</u>

Save as aforesaid or otherwise mentioned herein and apart from intra-group liabilities, as at the close of business of 31 October 2024, the Group did not have any outstanding or authorized to be issued but unissued debt securities, term loans, other borrowings or borrowings or indebtedness in nature of borrowing, acceptance credits, mortgages and charges, contingent liabilities or guarantees.

**3. WORKING CAPITAL**

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

#### 4. NO MATERIAL ADVERSE CHANGE

So far as is known to the Directors, as at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited combined financial statements of the Group were made up.

#### 5. EFFECT OF THE PROVISION OF THE LOAN ON THE EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY

The Company will finance the Loan under the Loan Agreement with its existing internal resources. As a result of entering into the Loan Agreement and assuming the Loan is drawn down in full, it is expected that the loan receivables will be increased by RMB300 million and the monetary fund will be decreased by the same amount. As such, the provision of the Loan will not have any effect to the total assets and liabilities of the Group.

The interest income to be received by the Company from the provision of the Loan will be recorded as other income of the Group. Save for the above, the Directors expect that there will be no material effect on the Group's combined income statement.

#### 6. FINANCIAL AND TRADING PROSPECT OF THE GROUP

In the second half of 2024, the Group will constantly implement its annual production and operation policies with a focus on the target of improving the quality of heat supply and reasonably reducing energy consumption by putting more efforts in the following areas:

- (i) To endeavour to carry out key construction projects for ultra-low emission transformation of coal power units in boiler rooms, install or upgrade desulphurization and dust removal equipment in compliance with the ultra-low emission standards, and coordinate with the gradual implementation of the "14th Five-Year Plan" comprehensive implementation plan for energy conservation and emission reduction in Jilin Province;
- (ii) To continuously enhance the intelligence of the heating system by leveraging the digital intelligence integration platform and strengthen the intelligent and precise regulation and control of the source, network, station, pipeline and household in the heating system, to effectively reduce energy consumption and practically improve the efficiency of energy utilisation;
- (iii) To endeavour to solve the problems identified during the summer inspection and maintenance and implement construction projects such as pipeline network renovation, station equipment replacement, and civil engineering repairs, to ensure the stable operation of the heat supply system and optimise the service quality of heat supply customer;

- (iv) To further strengthen the development of heating pipeline network, while alleviate the problem of insufficient heat in some areas by optimising the distribution of heat through main heating pipelines;
- (v) To keep enhancing the development of businesses such as engineering design, construction and maintenance.

The following contents are extracted from the asset appraisal report prepared by Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.\* dated 30 October 2024.

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

**ASSET APPRAISAL REPORT**

**APPRAISAL OF THE VALUE OF CERTAIN ASSETS TO  
BE DISPOSED OF BY CHANGCHUN CHUNCHENG  
INVESTMENT DEVELOPMENT GROUP COMPANY  
LIMITED\***

**Zhong Ping Heng Xin Ping Bao Zi (2024) No. 0042  
(Volume 1 of 1)**

**Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.\*  
30 October 2024**

**STATEMENT**

- I. This asset appraisal report is prepared in accordance with the Basic Guidelines on Asset Appraisal issued by the Ministry of Finance and the Code of Practice and Code of Ethics on Asset Appraisal issued by the China Appraisal Society.
- II. The clients or other users of the asset appraisal report shall use the asset appraisal report in accordance with the provisions of laws, administrative regulations and the scope of use set out in this asset appraisal report; the asset appraisal organization and the asset appraisers shall not be held responsible for the failure to use the asset appraisal report in accordance with the foregoing provisions by the clients or other users of the asset appraisal report.

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

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

- III. The asset appraisal organization and the asset appraisers shall abide by laws, administrative regulations and asset appraisal standards, adhere to the principles of independence, objectivity and impartiality, and shall be responsible for the asset appraisal reports issued in accordance with law.
- IV. The list of assets and liabilities involved in the appraised subject shall be declared by the clients, the property right holder and confirmed by its signature, seal or other means permitted by law; the clients and other relevant parties shall be responsible for the authenticity, completeness and legality of the information provided by them according to law.
- V. The asset appraisal organization and the asset appraisers have no existing or prospective interest in the appraised subject of the asset appraisal report; they have no existing or prospective interest in the relevant parties and are not biased against the relevant parties.
- VI. The asset appraisers have conducted on-site investigation of the appraised subject of the asset appraisal report and the assets involved; have paid necessary attention to the legal ownership status of the appraised subject and the assets involved; have checked the legal ownership information of the appraised subject and the assets involved; have made truthful disclosure of the issues identified; and have brought them to the attention of the clients and other relevant parties for perfecting the property rights to satisfy the requirement to issue an asset appraisal report.
- VII. The analysis, judgment and results in the asset appraisal report issued by the asset appraisal organization are subject to the assumptions and limitations in the asset appraisal report, and the users of the asset appraisal report should give full consideration to the assumptions, limitations, special matter statements and their impact on the appraisal conclusions contained in the asset appraisal report.

**SUMMARY OF THE ASSET APPRAISAL REPORT  
APPRAISAL OF THE VALUE OF CERTAIN ASSETS PROPOSED TO BE DISPOSED BY  
CHANGCHUN CHUNCHENG INVESTMENT DEVELOPMENT GROUP COMPANY  
LIMITED\***

Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.\* was engaged by Changchun Chuncheng Investment Development Group Company Limited\* and Jilin Province Chuncheng Heating Company Limited\* to carry out an appraisal of the value of certain assets of Changchun Chuncheng Investment Development Group Company Limited\*. Set out below is the summary of the main information and appraisal conclusions in the text of the asset appraisal report.

**Purpose of the appraisal:** The purpose of this appraisal is to provide a fair reflection of the market value of the economic act in relation to proposed disposal of assets by Changchun Chuncheng Investment Development Group Company Limited\* as at 31 August 2024, being the appraisal benchmark date, and to provide a value reference opinion for such economic activity.

**Subject and scope of the appraisal:** the appraised subject is fixed assets of Changchun Chuncheng Investment Development Group Company Limited\*, which is designated by the clients. The scope of the appraisal is certain assets of Changchun Chuncheng Investment Development Group Company Limited\* as at the appraisal benchmark date. In particular, the original carrying amount of fixed assets is RMB194.2555 million, and the net carrying amount of fixed assets is RMB42.1119 million.

Type of value: market value.

Appraisal benchmark date: 31 August 2024.

Appraisal approach: cost approach.

**Appraisal conclusions:** namely: total book assets of RMB42.11149 million before appraisal, with an appraised value of RMB82.8865 million, representing an appraisal added value of RMB40.7746 million, an added value rate of 96.82%.

Please refer to the breakdown list of asset valuation and the text of the asset appraisal report for the details of valuation conclusions.

The validity period for the use of the appraisal conclusions is one year from the appraisal benchmark date, and the asset appraisal report shall not be used beyond the validity period of this report.

The users of the asset appraisal report are advised to pay attention to special issues which could affect the valuation conclusions as described in the text of the asset appraisal report.

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

**TEXT OF THE ASSET APPRAISAL REPORT**  
**APPRAISAL OF THE VALUE OF CERTAIN ASSETS PROPOSED TO BE DISPOSED BY**  
**CHANGCHUN CHUNCHENG INVESTMENT DEVELOPMENT GROUP COMPANY**  
**LIMITED\***

**Changchun Chuncheng Investment Development Group Company Limited\* and Jilin Province Chuncheng Heating Company Limited\*:**

With the acceptance of the engagement entrusted by the Company, Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.\* has adhered to the principles of independence, objectivity and impartiality in accordance with the relevant laws, administrative regulations and asset appraisal standards, adopted the cost approach, and performed appraisal on the market value of assets proposed to be disposed by Changchun Chuncheng Investment Development Group Company Limited\* pursuant to necessary appraisal procedures as at 31 August 2024. The status of the asset appraisal is reported as follows.

**I. CLIENTS, PROPERTY RIGHT HOLDER AND OTHER USERS OF THE ASSET APPRAISAL REPORT**

The clients of this asset appraisal engagement are Changchun Chuncheng Investment Development Group Company Limited\* and Jilin Province Chuncheng Heating Company Limited\*. The property right holder is Changchun Chuncheng Investment Development Group Company Limited\*. The users of the asset appraisal report are the users of the asset appraisal report as agreed in the asset appraisal engagement contract and other users of the asset appraisal report as stipulated by laws and administrative regulations.

**(I) The clients and the property right holder**

**Overview of the client 1 and the property right holder**

1. Unified social credit code: 91220101124001988G
2. Company name: Changchun Chuncheng Investment Development Group Company Limited\*
3. Legal representative: Song Chi
4. Type: limited liability company (wholly state-owned)
5. Date of establishment: 28 April 1998
6. Registered capital: RMB361,000,000
7. Address: No. 998 Nanhu Road, Nanguan District

8. Scope of operation: general projects: investment activities with own funds; asset management services for investment with own funds; engineering cost consulting business; management of municipal facilities; engineering management services; property management; leasing of mechanical equipment; human resources services (excluding occupational intermediary activities and labour dispatch services); manufacturing of equipment for production of construction materials; manufacturing of hardware products; manufacturing of metal materials; sales of metal materials; coal-based activated carbon and other coal processing; biomass fuel processing; energy-saving management services. (Except for projects subject to the administrative approval, the business activities shall be conducted independently with the business licenses in accordance with the laws) permitted projects: heat production and supply. (Projects subject to approval in accordance with the laws, the business activities can only be carried out after approval by the relevant departments, and the specific business projects are subject to the approval documents or licenses of the relevant departments)

**Overview of the client 2:**

1. Unified social credit code: 91220101MA14W03575
2. Company name: Jilin Province Chuncheng Heating Company Limited\*
3. Legal representative: Song Chi
4. Type: Other limited company by shares (Listed)
5. Date of establishment: 23 October 2017
6. Registered capital: RMB466,700,000
7. Address: No. 28, Block B Nanhu Road Community (Hongcheng Xiyu), No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province
8. Scope of operation: New energy technology development; heating production and supply; heating engineering design and installation services; contractual energy management; sales of cables, electrical equipment, household appliances, flooring, floor tiles, thermostats and heating ancillary products (projects prohibited by laws, regulations and decisions of the State Council shall not be operated, but projects not prohibited shall be approved by the relevant departments before commencement of relevant business activities).

**(II) Relationship between the clients and the property right holder**

The client 1 and the property right holder are the same company. The client 2 is a controlled subsidiary of the property right holder.



## II. PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to make a fair statement for the market value of the economic activity, i.e., assets proposed to be disposed by Changchun Chuncheng Investment Development Group Company Limited\*, as at the appraisal benchmark date, i.e., 31 August 2024, so as to provide a value reference for such economic activity.

## III. SUBJECT AND SCOPE OF THE APPRAISAL

The subject of the appraisal is the fixed assets (structures and equipment) designated by Changchun Chuncheng Investment Development Group Company Limited\* and the original carrying amount and net carrying amount of which is RMB194,255,500 and RMB42,111,900, respectively.

The distribution is as follows:

No.	Item	Carrying Amount	
		Original Value	Net Value
1	Structures and other auxiliary facilities	8,250,378.48	4,445,302.54
2	Machinery and equipment	186,005,130.56	37,666,551.92
	<b>Total fixed assets</b>	<b>194,255,509.04</b>	<b>42,111,854.46</b>

## IV. TYPE OF VALUE AND DEFINITION

Based on the purpose of this appraisal, market condition, and the characteristics of the assessed assets, the type of value of the appraised subject is determined to be market value.

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

## V. APPRAISAL BENCHMARK DATE

The appraisal benchmark date is 31 August 2024, which is determined by the clients based on economic behaviour, the end of the accounting period, changes in interest rates and exchange rates, and other factors.

## VI. BASIS OF THE APPRAISAL

The laws and regulations of the national, local government and relevant departments, standards, ownership basis, and valuation references that we have followed in the course of this appraisal as well as the documents and information and the basis of reference in this regard, are mainly as follows:

### (I) Basis for economic activity

[Minutes of the Party Committee Meeting of Chuncheng Investment Group (28th)] of Changchun Chuncheng Investment Development Group Company Limited\*(12 October 2024).

### (II) Main legal and regulatory basis

1. Asset Appraisal Law of the People's Republic of China (adopted at the Twenty-First Session of the Standing Committee of the Twelfth National People's Congress on 2 July 2016);
2. Law of the People's Republic of China on the State-Owned Assets of Enterprises (adopted at the Fifth Session of the Standing Committee of the Eleventh National People's Congress on 28 October 2008);
3. The Civil Code of the People's Republic of China (adopted at the Third Session of the Standing Committee of the Thirteenth National People's Congress on 28 May 2020 and effective from 1 January 2021);
4. Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council [2003]);
5. Interim Measures for the Administration of the Appraisal of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission [2005]);
6. Notice on Issues Relating to Strengthening the Management of the Appraisal of State-owned Assets of Enterprises (SASAC Property Rights [2006] No. 274);
7. Circular on Matters Relating to the Review of the Appraisal Reports of State-owned Assets of Enterprises (SASAC Property Rights [2009] No. 941);

8. Guidelines for the Filing of State-Owned Asset Appraisal Projects of Enterprises (SASAC Property Rights [2013] No. 64);
9. Measures for Supervision and Administration of Enterprise State-owned Assets Transactions (SASAC and Ministry of Finance [2016] No. 32);
10. Measures on Financial Supervision and Management of the Asset Appraisal Industry (Order No. 97 of the Ministry of Finance);
11. Rules for the Operation of State-owned Property Rights Transactions of Enterprises (SASAC Property Rights [2009] No. 120);
12. Circular on Matters Relating to the Facilitation of the Transfer of State-owned Property Rights of Enterprises (SASAC Property Rights [2014] No. 95);
13. Opinions Regarding the Regulation of the Reform of State-owned Enterprises (Guo Ban Fa [2003] No. 96);
14. Implementation Opinions Regarding the Further Regulation of the Reform of State-owned Enterprises (Guo Ban Fa [2005] No. 60);
15. Provisions on Certain Issues Concerning the Management of the Appraisal of State-owned Assets (Order No. 14 of the Ministry of Finance);
16. Accounting Standards for Business Enterprises - Basic Standards (Order No. 33 of the Ministry of Finance) and Decision of the Ministry of Finance on Amending the Accounting Standards for Business Enterprises - Basic Standards (Order No. 76 of the Ministry of Finance);
17. General Principles of Corporate Finance (Order No. 41 of the Ministry of Finance [2006]);
18. Other relevant laws and regulations.

### **(III) Basis for criteria**

1. Basic Standards on Asset Appraisal (Caizi [2017] No. 43);
2. Code of Practice on Asset Appraisal - Asset Appraisal Methods (CAS [2019] No. 35);
3. Code of Practice on Asset Appraisal - Asset Appraisal Reports (CAS [2018] No. 35);
4. Code of Practice on Asset Appraisal - Asset Appraisal Procedures (CAS [2018] No. 36);

5. Code of Practice on Asset Appraisal — Asset Appraisal Files (CAS [2018] No. 37);
6. Code of Professional Ethics for Asset Appraisal (CAS [2017] No. 30);
7. Code of Practice on Asset Appraisal — Asset Appraisal Engagement Contracts (CAS [2017] No. 33);
8. Code of Practice on Asset Appraisal — Real Property (CAS [2017] No. 38);
9. Code of Practice on Asset Appraisal — Machinery and Equipment (CAS [2017] No. 39);
10. Guide to the Appraisal Report on State-owned Assets of Enterprises (CAS [2017] No. 42);
11. Guide to Quality Control of Asset Appraisal Agency Operations (CAS [2017] No. 46);
12. Guidance on Types of Asset Appraisal Values (CAS [2017] No. 47);
13. Guidance on the Legal Ownership of Asset Appraisal Subjects (CAS [2017] No. 48);
14. Terms for Asset Valuation Standards 2020 (CAS [2020] No. 31).

**(IV) Basis of ownership**

Other relevant documents of ownership provided by the property right holder.

**(V) Basis for pricing**

1. Relevant national industrial policies, industry analysis data, parameter data, etc.;
2. Loan Prime Rate (LPR) published by the National Interbank Funding Center;
3. Construction Project Cost Index of Changchun for the first half of 2024;
4. Inquires from relevant market;
5. Other contracts, accounting documents and other materials related to the acquisition and use of assets by the enterprise.

**(VI) Other bases of reference**

1. A detailed statement of asset appraisal declaration provided by the property right holder;
2. On-site investigation questionnaire and other information collected and sorted out by asset appraisal professionals;
3. The latest version of the Handbook of Common Methods and Parameters of Asset Valuation;
4. Real Estate Valuation Code of the People's Republic of China (GB/T50291-2015);
5. Other information relevant to the valuation.

**VII. APPRAISAL METHODS****(I) Introduction of appraisal methods**

The market approach in asset value appraisal refers to the appraisal approach that compares the appraised subject with comparable assets or assets with transaction cases in the market to determine the value of the appraised subject.

The income approach in asset value appraisal refers to the appraisal approach that determines the value of an asset by capitalizing or discounting the expected earnings of the asset. The income approach measures the value of an asset from the perspective of the profitability thereof based on the economic expected utility theory.

The cost approach in asset value appraisal is as follows. Firstly, the replacement cost is determined by all cost required to re-construct a brand-new appraised asset under the current condition. Then the newness rate is determined by the comparison between the appraised asset and the brand-new one. The appraised value is determined by the replacement cost multiplying the newness rate.

The scope of this appraisal is composed of structures and machinery and equipment, which do not have any profitability individually, and factors including future income and cost cannot be predicted or quantified in terms of currency, therefore it is not appropriate to adopt income approach for this appraisal. It is difficult to collect transaction records of assets comparable to the appraised asset in the market, therefore it is not appropriate to adopt market approach for this appraisal. Subject to the analysis above, it is determined to adopt cost approach for this appraisal.

**(II) Technical idea and model of the cost approach**

The cost approach adopted in this project is an appraisal technical idea for determining the value of the appraised subject by using the amount of investment required to reconstruct an independently profitable enterprise with the same on- and off-balance sheet assets and liabilities as those of the appraised subject as at the appraisal benchmark date, as a basis for determining the value of the assets to add up the appraisal value of the assets and liabilities of the various elements that make up the enterprise determined by specific appraisal approaches appropriate to the specific circumstances.

**(III) Appraisal process of the cost approach****1. Fixed assets — structures**

The scope of this appraisal does not include any buildings, only structures. For such assets, it is appropriate to use the replacement cost approach for appraisal, with the appraised value determined based on tax-inclusive prices. The quantities are determined based on information provided by the property owner and actual measurements.

The cost approach refers to the appraisal method to predict the replacement cost of the appraised assets and then to predict various impairment factors of the appraised assets to arrive at the value of the appraised assets by deducting such factors from its replacement cost.

Appraised value = replacement cost x integrated newness rate

**(1) Determination of replacement cost**

The replacement cost is determined based on the construction and installation cost levels in the Changchun area, and then adjusted through coefficients to establish the total cost of the construction project.

The upfront cost of a construction project is determined by reference to the national regulations, while taking into account the actual circumstances of the locality where the construction project is located.

The capital cost refers to the interest or opportunity cost of the capital consumed in the construction of buildings. The loan interest rate is determined according to the applicable loan market quotation rate (LPR) published by the National Inter-Bank Funding Center on the appraisal benchmark date. The reasonable construction period is determined based on the construction scale of the appraised assets, and the capital allocated for the construction period is calculated on the even input basis.

Replacement cost = cost of construction and installation + upfront and other costs + capital cost

(2) *Determination of newness rate*

The integrated newness rate is determined based on the results of site survey according to the specific conditions of buildings by adding up the weighted averages in different weights calculated using the lifetime method and the complete score method.

① Newness rate determined by the lifetime method

Newness rate determined by the lifetime method = (economic life – used life)/economic life × 100%

Economic life is determined in accordance with the common data for asset appraisal.

② Newness rate determined by the survey method

By mainly making reference to the actual condition of the structure, the complete scores calculated based on the complete score of each division component project according to the records of site survey, and then compared with the standard scores to obtain the newness rate. The formula is set out as below:

Newness rate determined by the survey method = sum of scores of each division component ÷ sum of standard score scores

The newness rate is determined by adding up the newness rates determined by the above two methods in different weights.

③ Determination of integrated newness rate

Integrated newness rate = newness rate determined by the lifetime method × 40% + newness rate determined by the survey method × 60%

(3) *Determination of appraised value*

Appraised value = replacement cost × integrated newness rate.

## 2. *Fixed assets — equipment*

The machinery and equipment included in the appraisal do not have independent profit-generating capabilities, making the income approach unsuitable for appraisal; it is not appropriate to adopt the market approach as it is not possible to find comparable references in the current market that are identical and similar; therefore, the replacement cost approach is appropriate for this appraisal. The appraised value of electronic equipment is determined by tax-inclusive prices, and the quantity is based on the actual quantity as at the appraisal benchmark date.

The replacement cost approach refers to various appraisal approaches in which the replacement cost of the appraised asset is first estimated and then various depreciation factors already present in the appraised asset are estimated and deducted from the replacement cost to arrive at the value of the appraised asset.

Appraised value = replacement cost × integrated newness rate

### (1) *Determination of replacement cost*

For the standard set of machineries and equipment, their replacement cost is determined in accordance with the tax and fee regulations in the PRC and based on the purchase price from the market, plus transportation and miscellaneous costs, installation and commissioning fee and cost of necessary auxiliary parts to bring the equipment to the condition ready for use, and other construction preliminary costs and other expenses and capital cost calculated based on the current market fee rates in the region where the appraised assets is located.

### (2) *Determination of newness rate*

Determination of the newness rate of major machineries and equipment:

Economic life of machinery and equipment: Determined with reference to the *Handbook of Common Methods and Parameters for Asset Appraisal*;

Used life: Determined based on the period from the installation and usage date to the appraisal benchmark date, with reference to the equipment's operational rate;

Newness rate by useful life approach = (economic life - used life)/economic life × 100%



Newness rate by inspection approach =  $\Sigma$  score from technical observation and analysis  $\times$  weight of each component's score  $\times$  100%

Integrated newness rate = newness rate by useful life approach  $\times$  40% + newness rate by inspection approach  $\times$  60%

(3) *Determination of appraised value*

Appraised value = replacement cost  $\times$  integrated newness rate.

### VIII. PROCESS AND IMPLEMENTATION OF THE APPRAISAL PROCEDURES

- (I) Changchun Chuncheng Investment Development Group Company Limited\*, intending to dispose of assets, decided to engage us to assess the asset value of the property right holder after contact with us. Upon accepting the engagement, we determined the appraisal purpose and the asset type of the appraised subject based on the characteristics of the corresponding economic activity for this engagement, and gained a preliminary understanding of the appraised subject and the scope of appraisal. The appraisal benchmark date was agreed upon in consultation with the client, followed by the drafting of the appraisal plan and signing of the appraisal engagement contract.
- (II) In accordance with the *Code of Practice on Asset Appraisal — Asset Appraisal Procedures*, we provided the property right holder with the necessary asset appraisal forms and guided the property right holder through the asset inspection and form completion process. After completing the said preparatory tasks, our professional asset appraisal team conducted an on-site evaluation. This involved inquiries, confirmations, reconciliations, monitoring, inspections and other methods to gather the necessary information. We obtained an understanding of the economic and technical conditions as well as the legal ownership status of the assets, analyzed the specific situation of the appraised subject, collected financial data of the company for recent time and as of the appraisal benchmark date, verified whether the appraisal data provided by the company

aligned with its accounting records to assure the authenticity and completeness of the documentation requested, and paid special attention to the legal ownership status of the assets.

- (III) In accordance with relevant laws, standards and pricing principles regarding to appraisal, we applied suitable appraisal methods based on the specific characteristics of the assets. Market price information was collected to serve as a reference in determining the appraisal value, and the verified book values were used to estimate the appraisal value.
- (IV) We summarized the appraisal results, analyzed the appraisal conclusions, compiled the appraisal report, conducted an internal three-level review, and submitted the appraisal report.

## **IX. APPRAISAL ASSUMPTIONS**

The appraisal conclusions of the appraised subject are based on the following assumptions and limitations. If these assumptions or conditions are not reasonably met, the appraisal conclusions in this report may vary to different degrees.

### **(I) General assumptions**

1. Transaction assumption: It is assumed that all assets to be appraised are already in the course of transaction. The asset appraiser is valuing the assets to be appraised based on a simulated market, such as the transaction conditions of the assets to be appraised.
2. Open market assumption: It is assumed that with respect to the assets traded or to be traded in the market, the transacting parties are in equal position and both have opportunities and time to access sufficient market information so as to make a rational judgment on the function, purpose and transaction price of the assets.
3. Assumption of continued use of assets: It is assumed that the appraised assets will continue to be used legally and effectively in accordance with the planned use and conditions of use, such as the manner, scale, frequency and environment, and will not undergo material changes during the foreseeable period of use.

### **(II) Special assumptions**

1. Assuming that there are no significant changes in the relevant existing national laws, regulations and policies, the national macroeconomical situation and the political, economic and social environment of the regions in which the parties to this transaction are located.
2. Assuming that there are no material changes in interest rates, exchange rates, tax bases and tax rates, policy levies, etc. relating to the property right holder after the appraisal benchmark date.

3. Assuming that the processes of acquiring, obtaining and constructing the assets involved in the appraised subject are all in compliance with the provisions of relevant national laws and regulations.
4. Assuming that the property rights of the structures and equipment included in the scope of the appraisal, belong to Changchun Chuncheng Investment Development Group Company Limited\*.

## X. APPRAISAL CONCLUSIONS

After implementing the different appraisal approaches and procedures described above, the following appraisal conclusions are reached on the market value of some structures and equipment of Changchun Chuncheng Investment Development Group Company Limited\* as at 31 August 2024 in relation to the purpose of the proposed disposal by the Changchun Chuncheng Investment Development Group Company Limited\*:

After appraised under cost approach, the total book assets of Changchun Chuncheng Investment Development Group Company Limited\* before appraisal amount to RMB42.1119 million, with an appraised value of RMB82.8865 million, representing an appraisal added value of RMB40.7746 million, an added value rate of 96.82%.

**The appraised value of the assets of Changchun Chuncheng Investment Development Group Company Limited\* is RMB82.8865 million.**

The validity period for the use of the appraisal conclusions is one year from the appraisal benchmark date, and the asset appraisal report shall not be used beyond the validity period of this report.

The appraisal conclusions have been arrived at in accordance with the purpose, assumptions and limitations, basis, approaches and procedures set out in this asset appraisal report and the appraisal conclusions are only valid if the said purpose, basis, assumptions and premises exist and the appraisal conclusions serve the purpose of this appraisal only.

## XI. STATEMENT OF SPECIAL MATTERS

### (I) Ownership defect

The structures included in the scope of this appraisal have no settlement information, with only accounting vouchers and property rights description provided by the property right holder, and the quantity of which is determined according to the actual measurement of the clients. For large equipment such as boilers included in the scope of appraisal, according to the property rights description provided by the clients, the purchase contract cannot be found due to various reasons such as the transfer of internal management personnel of the property right holder, so the property rights are confirmed only through the Special Equipment Use Registration Certificate of the People's Republic of China provided by the property right holder.

**(II) Explanation of incomplete appraisal information**

For the information on construction drawings and project budget (settlement) within the scope of this assessment that the property right holder were unable to provide, the appraisers conducted the evaluation and calculations by referencing relevant information of similar projects.

**(III)** Due to the lack of access to sufficiently abundant relevant market transaction statistic information and the lack of a basis for analysis and judgment on the extent of the impact of liquidity on the value of the appraisal subjects, the appraisal results of the cost approach used in this exercise do not take into account the liquidity discount factor.

**(IV)** The asset appraisal institution and the asset appraisal professionals shall not be liable for any other defective matters that may exist on the part of the clients and the property right holder that may affect the appraisal conclusions, if the clients and the property right holder have not specifically stated thereto and the asset appraisal professionals have performed the appraisal procedures and still cannot be informed of them.

**(V)** The appraisal conclusions have not considered the impact on the appraisal conclusions of possible future mortgage and guarantee matters to be undertaken, as well as possible additional or reduced prices to be paid by special counterparties, etc. The appraisal conclusions have also not considered the impact of changes in national macroeconomic policies and the impact of natural forces and other force majeure on the value of the appraisal target; if the aforesaid conditions and other assumptions and premises such as the going concern principle followed in the appraisal change, the appraisal conclusions would generally be invalidated and the user of the report cannot use this appraisal report, otherwise the user of the report shall bear all consequences.

**(VI)** The appraisal conclusions have not taken into account the tax liabilities arising from the appraisal increase or decrease in value of the appraisal subject, and the final tax liabilities to be undertaken shall be based on the amount of tax liabilities approved by the local tax authorities.

**(VII)** If there is a material change in the number of assets between the appraisal report date and the validity of the appraisal report, the amount of assets should be adjusted accordingly; if there is a change in the asset price criteria which has a significant impact on the appraisal conclusions, a reappraisal should be carried out.

**(VIII)** The appraised assets value is tax-inclusive in this appraisal.

The treatment of the aforesaid special matters and the possible impact of the special matters on the appraisal conclusions are brought to the attention of the users of the asset appraisal report for their impact on economic behaviour.

**XII. NOTE ON LIMITATIONS ON THE USE OF THE APPRAISAL REPORT**

- (I) This asset appraisal report may only be used for the purposes and intended usage expressly indicated in the appraisal report.
- (II) The asset appraisal report may only be used by the report users as specified in the report, unless otherwise required by national laws and regulations. The asset appraisal organization and its asset appraisers shall not be liable if the client or other users of the asset appraisal report fail to use the asset appraisal report in accordance with the provisions of laws and administrative regulations and the scope of use set out in the asset appraisal report. Except for the client, other users of the asset appraisal report as agreed in the asset appraisal engagement contract and the users of the asset appraisal report as required by laws and administrative regulations, no other institution or individual can be the user of the asset appraisal report.
- (III) Users of the asset appraisal report should properly understand and use the appraisal conclusions, which do not represent the price that could be realized for the appraised subject and should not be considered as a guarantee of the price that could be realized for the appraised subject.
- (IV) If the asset appraisal report is required to be submitted to the relevant authorities for filing in accordance with the current national regulations, it will not be officially used until the reply is received. This valuation report may not be used without obtaining the filing documents from the relevant authorities of the state-owned assets.
- (V) The contents of the asset appraisal report shall not be extracted, cited or disclosed in the public media without the consent of the asset appraisal organization, except as required by laws and regulations and as otherwise agreed by the relevant parties.
- (VI) The right of interpretation of the asset appraisal report shall be vested on the asset appraisal organization for this project solely, except as otherwise required by national laws and regulations.

**XIII. VALUATION REPORT DATE**

The date of this asset appraisal report is 30 October 2024.

Asset appraiser:

Guo Mingda

Asset appraiser:

Zhang Shucheng

Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.\*  
30 October 2024

**(This report is effective when the appraisal conclusion page and this signature page are stamped and affixed with the cross-page seal simultaneously)**

\* *For identification purposes only*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. DISCLOSURE OF INTERESTS****(i) Interests of Directors, Supervisors and chief executive**

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

**(ii) Interests of substantial Shareholders**

As at the Latest Practicable Date, 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 recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Type of Shares	Capacity	Number of Shares/ underlying Shares held (share) (Note 2)	Percentage of relevant class of share capital (Note 3)	Percentage of total share capital (Note 4)
Chuncheng Investment	Domestic Shares	Beneficial owner	325,500,000 (L)	93.00%	69.75%
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)	Domestic Shares	Beneficial owner	24,500,000 (L)	7.00%	5.25%
China Foreign Economic and Trade Trust Co., Ltd. (Note 1)	H Shares	Trustee	30,500,000 (L)	26.14%	6.54%
Northeast Asia Crowdwit Investment Management (Jilin) Co., Ltd. (東北亞萬眾創投資管理(吉林)有限公司)	H Shares	Beneficial owner	17,090,000 (L)	14.64%	3.66%

*Notes:*

- (1) China Foreign Economic and Trade Trust Co., Ltd. is the trustee of SCBCN — Foreign Economy and Trade Trust Co., Ltd-Fotic Wuxingbaichuan No. 37 Unitrust.
- (2) (L) denotes the relevant person's long position in such Shares.
- (3) Based on 350,000,000 Domestic Shares or 116,700,000 H Shares of the Company in issue as at the Latest Practicable Date.
- (4) Based on the total issued share capital of the Company of 466,700,000 Shares as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, there was no other person who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.



### 3. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or the Supervisors had entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

### 4. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualifications of each of the experts who has been named in this circular or has given opinions, letters or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Giraffe Capital Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Beijing Zhong Ping Heng Xin Asset Appraisal Co., Ltd.*	Qualified independent valuer in the PRC holding an asset appraisal qualification certificate issued by the Beijing Municipal Finance Bureau (北京市財政局)

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with inclusion herein of its letter or report and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts did not have any interest in the share capital of any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have been, since 31 December 2023, being the date to which the latest published audited combined financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

As at the Latest Practicable Date, each of the above experts was not materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

### 5. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

\* *For identification purposes only*

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, the following Director was considered to have interests in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group:

<b>Name of Director</b>	<b>Entity whose business is considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of the Director in the entity</b>
Mr. Song Chi	Chuncheng Investment	Heat supply	Party secretary and chairman

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive nor their respective close associates had any interests in a business, which competed or was likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

## 7. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

So far as is known to the Directors, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive had any interest, direct or indirect, in any assets which have been, since 31 December 2023, being the date to which the latest published audited combined financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

None of the Directors, Supervisors or chief executive was materially interested in any contract or arrangement subsisting as at the date of this circular which was significant in relation to the business of the Group.

**8. MATERIAL CONTRACTS**

The following contracts (not being contract in the ordinary course of business) has been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date which is or may be material:

- (a) the First Assets Transfer Agreement;
- (b) the Second Assets Transfer Agreement; and
- (c) the Loan Agreement.

**9. GENERAL**

- (a) The registered office of the Company is at No. 28, Block B Nanhu Road Community No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, PRC.
- (b) The principal place of business of the Company in Hong Kong is at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The joint company secretaries of the Company are Mr. Wan Tao and Mr. Lee Chung Shing. Mr. Lee Chung Shing is an associate of Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.
- (e) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

**10. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.cc-tp.com.cn](http://www.cc-tp.com.cn)) from the date of this circular up to and including the date of the EGM:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;
- (b) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 21 to 53 of this circular;
- (c) the valuation report issued by the Valuer;
- (d) the consent letters referred to in the section headed “4. Qualifications and Consents of Experts” in this appendix;

- (e) the First Assets Transfer Agreement;
- (f) the Second Assets Transfer Agreement; and
- (g) the Loan Agreement.



**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)**

**NOTICE OF THE SECOND EXTRAORDINARY GENERAL  
MEETING OF 2024**

**NOTICE IS HEREBY GIVEN** that the second extraordinary general meeting of 2024 (the “EGM”) of Jilin Province Chuncheng Heating Company Limited\* (the “Company”) will be held at Conference Room 711, Chuncheng Heating, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC, at 9 a.m. on Tuesday, 24 December 2024, for the purposes of considering and, if thought fit, passing the following resolutions:

**ORDINARY RESOLUTIONS**

1. To consider and approve the Second Assets Transfer Agreement entered into between the Company and Chuncheng Investment and the transactions contemplated thereunder.
2. To consider and approve the Loan Agreement entered into between the Company and Chuncheng Investment and the transactions contemplated thereunder.

By order of the Board

**Jilin Province Chuncheng Heating Company Limited\***

**Song Chi**

*Chairman*

Jilin, the PRC, 9 December 2024

*Notes:*

1. The register of members of the Company will be closed from Thursday, 19 December 2024 to Tuesday, 24 December 2024 (both days inclusive), during which period no transfer of Shares of the Company can be registered. Shareholders who wish to attend and vote at the EGM must lodge all transfer documents accompanied by the relevant share certificates to (in case of H Shareholders) the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (in case of Domestic Shareholders) the head office of the Company in the PRC, No. 28, Block B, Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC no later than 4:30 p.m. on Wednesday, 18 December 2024.
2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalf. A proxy needs not to be a Shareholder.

\* *For identification purposes only*

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## NOTICE OF THE SECOND EGM OF 2024

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3. In order to be valid, the proxy form of Shareholders for the EGM must be deposited by hand or by post to (in case of H Shareholders) the H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (in case of Domestic Shareholders) the head office of the Company in the PRC, No. 28, Block B, Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC not less than 24 hours before the time for holding the EGM or any adjournment thereof for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarial copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings thereof should they so wish.
4. Shareholders or their proxies shall provide their identification documents when attending the EGM. In case of a corporate Shareholder, its proxy or other person authorized to attend the meeting with a resolution passed by the board of directors or other decision-making authorities of which the Shareholder is a member, should provide a copy of such resolution.
5. In case of joint holders, the vote of the senior joint Shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Shareholder(s) and for this purpose seniority will be determined by the order in which the names stand on the register of members of the Company in respect of the joint shareholding.
6. The on-site EGM is expected to take less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
7. The address of the head office of the Company in the PRC is No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC.
8. Unless otherwise defined, capitalized terms used in this notice shall have the same meaning as those defined in the Company's circular dated 9 December 2024.

*As at the date of this notice, the non-executive Director of the Company is Mr. Song Chi (Chairman); the executive Directors are Mr. Yang Zhongshi, Mr. Shi Mingjun, Mr. Xu Chungang and Mr. Li Yeji; and the independent non-executive Directors are Mr. Fu Yachen, Mr. Poon Pok Man and Ms. Zhang Yan.*