



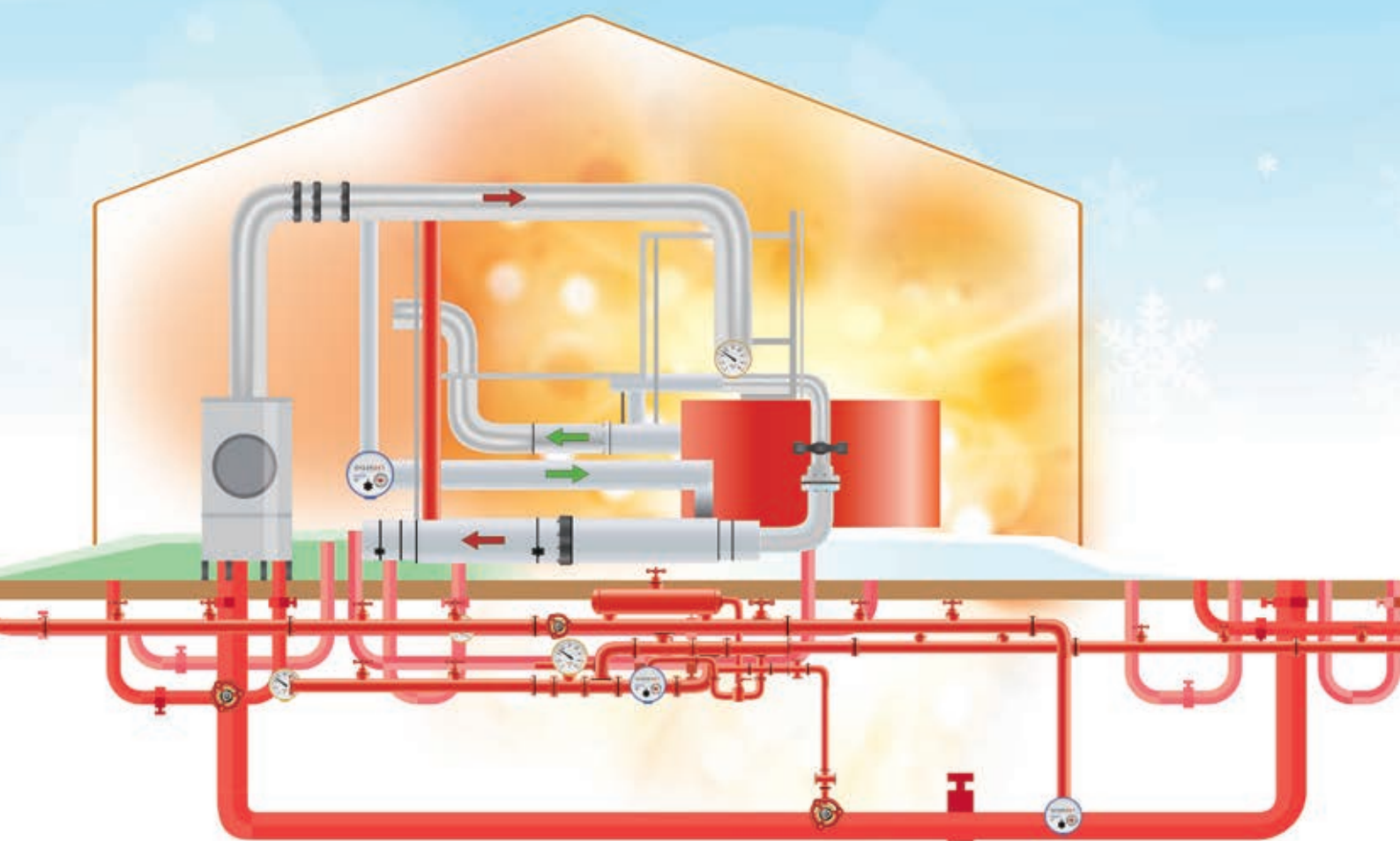
Jilin Province Chuncheng Heating Company Limited*

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

GLOBAL OFFERING



Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



BOC INTERNATIONAL

* For identification purpose only

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus you should obtain independent professional advice.



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)

GLOBAL OFFERING

Number of Offer Shares	: 116,700,000 H Shares (subject to the
under the Global Offering	Over-allotment Option)
Number of International Offer Shares	: 105,030,000 H Shares (subject to
	adjustment and the Over-allotment
	Option)
Number of Hong Kong Public	: 11,670,000 H Shares (subject to
Offer Shares	adjustment)
Maximum Offer Price	: HK\$2.50 per H Share, plus brokerage
	fee of 1%, SFC transaction levy of
	0.0027% and Hong Kong Stock
	Exchange trading fee of 0.005%
	(payable in full on application in Hong
	Kong dollars and subject to refund on
	final pricing)
Nominal value	: RMB1.00 per H Share
Stock code	: 1853

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



BOC INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

We are incorporated, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Appendix III – Taxation and Foreign Exchange", "Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association" in this prospectus.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around 17 October 2019 or such later time as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), but in any event no later than 23 October 2019. The Offer Price will be not more than HK\$2.50 per Offer Share and is currently expected to be not less than HK\$1.90 per Offer Share. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$2.50 per Offer Share, unless otherwise announced, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than the price per Offer Share payable on application.

The Sole Global Coordinator (for itself, and on behalf of the Sole Bookrunner and Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$1.90 to HK\$2.50 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Wen Wei Po (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.cc-tp.com.cn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Public Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain events shall occur prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

* For identification purpose only.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English), and in the Wen Wei Po (in Chinese).

Hong Kong Public Offering commences and
WHITE and **YELLOW** Application Forms
available from 9:00 a.m. on Friday, 27 September 2019

Latest time to complete electronic applications under
White Form eIPO service through the designated
website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on Thursday, 17 October 2019

Application lists open⁽³⁾ 11:45 a.m. on Thursday, 17 October 2019

Latest time to lodge **WHITE** and
YELLOW Application Forms 12:00 noon on Thursday, 17 October 2019

Latest time to give **electronic application**
instructions to HKSCC⁽⁴⁾ 12:00 noon on Thursday, 17 October 2019

Latest time to complete payment of
White Form eIPO applications by
effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on Thursday, 17 October 2019

Application lists close 12:00 noon on Thursday, 17 October 2019

Expected Price Determination Date. Thursday, 17 October 2019

Announcement of the Offer Price Wednesday, 23 October 2019

Announcement of:

- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allocation of the Hong Kong Public Offer Shares,

to be published (a) in South China Morning Post (in English)
and Wen Wei Po (in Chinese); (b) on our website
at www.cc-tp.com.cn⁽⁵⁾ and the website of the
Hong Kong Stock Exchange at www.hkexnews.hk⁽⁶⁾
on or before Wednesday, 23 October 2019

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document
numbers where appropriate) to be available through a
variety of channels (see "How to Apply for Hong Kong
Public Offer Shares – Publication of Results") from Wednesday, 23 October 2019

Results of allocations in the Hong Kong Public Offering will
be available at www.iporesults.com.hk (alternatively:
English <https://www.eipo.com.hk/en/Allotment>;
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>)
with a "search by ID" function Wednesday, 23 October 2019

H Share certificates in respect of wholly or partially
successful applications to be dispatched or
deposited into CCASS⁽⁷⁾ Wednesday, 23 October 2019

White Form e-Refund payment instructions/refund checks
in respect of wholly or partially unsuccessful applications
to be dispatched on or before⁽⁷⁾⁽⁸⁾⁽⁹⁾ Wednesday, 23 October 2019

Dealings in H Shares on the Hong Kong Stock
Exchange expected to commence at 9:00 a.m. on Thursday, 24 October 2019

The application for the Hong Kong Public Offer Shares will commence on Friday, 27 September 2019 through Thursday, 17 October 2019, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of us and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 23 October 2019. Investors should be aware that the dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, 24 October 2019.

Notes:

1. All dates and times refer to Hong Kong local dates and times, except as otherwise stated. Details of the arrangement for the Global Offering, including conditions of the Hong Kong Public Offering, are set out in the section headed "Structure of the Global Offering" of this prospectus.
2. You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application through the designated website at www.eipo.com.hk and obtained an application reference number prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is/are a tropical cyclone warning signal number 8 above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 17 October 2019, the application lists will not open on that day. See "How to Apply for Hong Kong Public Offer Shares – Effect of Bad Weather on the Opening of the Application Lists" of this prospectus.
4. Applicants who apply for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should see the section headed "How to Apply for Hong Kong Public Offer Shares – Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS" of this prospectus.

EXPECTED TIMETABLE⁽¹⁾

5. None of the website or any of the information contained on the website forms part of this prospectus.
6. The announcement will be available for viewing on the Hong Kong Stock Exchange's website at www.hkexnews.hk.
7. Applicants who apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by their Application Forms, they may collect their refund check(s) (if applicable) and H Share certificates (if applicable) in person from our 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 from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 October 2019. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. Uncollected refund checks and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.
8. Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank accounts will have refund monies (if any) dispatched to their application payment bank account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts will have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund checks, by ordinary post at their own risk.
9. Refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The H Shares certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date (which is expected to be on or about Thursday, 24 October 2019). Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Shares certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. See "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Public Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. Neither us nor any of the Relevant Persons (as defined in this prospectus) has authorized anyone to provide you with any information or to make any representation that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us or any of the Relevant Persons.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus, including the appendices, in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We were the largest heat service provider in Jilin Province in terms of heat service area in 2018, according to the Frost & Sullivan Report. Heat supply is our core business, which has more than 20 years of operating history in Changchun. We have established a leading position and extensive experience in the heat supply industry in Changchun and Jilin Province. We also offer construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. Our construction, maintenance and design services, together with our heat supply, cover a wide spectrum of services of the industrial chain.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	% of		% of		% of		% of		% of	
	total		total		total		total		total	
	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue
Revenue										
Heat supply, of which:	782,013	92.2%	854,801	77.1%	939,522	65.2%	468,719	94.6%	487,489	88.8%
– Provision and										
distribution of heat	724,091	85.3%	792,381	71.5%	875,399	60.8%	447,523	90.3%	469,333	85.5%
– Pipeline connection fee	43,887	5.2%	48,718	4.4%	51,522	3.5%	12,756	2.6%	13,501	2.5%
– Heat transmission	14,035	1.7%	13,702	1.2%	12,601	0.9%	8,440	1.7%	4,655	0.8%
Construction, maintenance and										
design services ⁽¹⁾ , of which:	66,418	7.8%	253,572	22.9%	500,637	34.8%	26,673	5.4%	61,405	11.2%
– Engineering construction	57,883	6.8%	208,547	18.8%	310,928	21.6%	18,617	3.8%	44,626	8.1%
– Engineering maintenance	1,989	0.2%	36,942	3.3%	173,063	12.0%	5,928	1.2%	15,424	2.8%
– Design services	5,534	0.7%	7,351	0.7%	16,051	1.1%	2,105	0.4%	1,287	0.2%
– Others ⁽²⁾	1,012	0.1%	732	0.1%	595	0.1%	23	0.0%	68	0.1%
Total	848,431	100.0%	1,108,373	100.0%	1,440,159	100.0%	495,392	100.0%	548,894	100.0%

SUMMARY

Notes:

- (1) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and thus revenue generated from these services was eliminated on a consolidated basis. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.
- (2) Others included rental services and sales of goods.

Heat supply

Pursuant to relevant rules and regulations, we only supply heat during the heat supply period which typically commences in October and ends in April of the following year. During the Track Record Period, we provided heat supply to residential and non-residential end-users in Changchun, Jilin Province. As at 31 December 2018, our heat service area was approximately 38.5 million sq.m., accounted for approximately 6.3% and 15.4% of the total heat service area in Jilin Province and Changchun, respectively.

The following table sets out a breakdown of revenue generated from provision and distribution of heat by residential and non-residential end-users for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Revenue generated from provision and distribution of heat										
Residential end-users	477,342	65.9%	525,257	66.3%	582,129	66.5%	295,924	66.1%	312,746	66.6%
Non-residential end- users	246,749	34.1%	267,124	33.7%	293,270	33.5%	151,599	33.9%	156,587	33.4%
Total	724,091	100.0%	792,381	100.0%	875,399	100.0%	447,523	100.0%	469,333	100.0%

During the Track Record Period, our heat was sourced through two channels, including (i) heat procured from local cogeneration plants; and (ii) heat produced by coal-fired boilers. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, in terms of volume, approximately 67.9%, 68.8%, 82.7% and 100% of our heat was procured from local cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant, which are Independent Third Parties. These three cogeneration plants represent three out of the five existing cogeneration plants in Changchun.

SUMMARY

For the same periods, in terms of volume, approximately 32.1%, 31.2%, 17.3% and none of our heat was generated from the coal-fired boilers owned by our Controlling Shareholder which were not transferred to our Group during the Reorganization. Commencing from the heat supply period in October 2018, all of the heat demand is satisfied by heat procurement from local cogeneration plants. During the Track Record Period, certain of heat procurement quota we obtained from the local cogeneration plants was transferred to three other heat service providers after we received consents of the cogeneration plants.

Within our heat service area, our heat distribution network primarily consists of our own primary distribution pipelines. We own the proprietary rights of our primary distribution pipelines and we are responsible for their maintenance. Our heat distribution network covers the inner urban areas of Changchun, which includes Chaoyang district (朝陽區), Nanguan district (南關區), Lvyuan district (綠園區), Kuancheng district (寬城區), Jingyue district (淨月區) and Erdao district (二道區). As at 31 December 2016, 2017 and 2018 and 31 March 2019, our heat service area was approximately 33.2 million sq.m., 35.8 million sq.m., 38.5 million sq.m. and 38.5 million sq.m., respectively.

Pursuant to the relevant PRC laws and regulations, heat service area of a particular heat service provider and the construction of primary distribution pipelines are subject to a municipal planning by the local government. We believe that our revenue generation relating to our existing heat service area will remain stable as we are as a matter of fact the sole heat service provider within our existing heat service area. Other heat service providers are unlikely to enter our existing heat service area due to the significant entry barriers. For more information relating to the entry barriers of heat supply, please refer to the sections headed “Industry Overview – Entry Barriers” and “Business – Our Competitive Strengths – We were the largest heat service provider in Jilin Province in 2018 with leading market position and we operate in the heat supply market where there are significant barriers to entry” in this prospectus.

Construction, Maintenance and Design Services

During the Track Record Period, leveraging on our extensive experience and reputation in the heat supply business, we have established our strong capabilities of offering construction, maintenance and design services, enabling us to provide comprehensive heat supply-related services in the industry. Our construction, maintenance and design services include:

- (i) engineering construction – our capabilities include heating facility construction, pipeline installation, boiler installation, heat exchange station installation, heat facility maintenance and construction management;
- (ii) engineering maintenance – we offer engineering maintenance services such as carrying out heating facility cleaning, installation, repair and maintenance as well as replacement for other heat service providers and end-users;

SUMMARY

- (iii) design services – we offer engineering design services for construction projects mainly relating to the heat supply industry, such as designing and providing consultancy and technical services for construction projects of distribution networks, heat exchange stations, as well as boiler rooms; and
- (iv) electrical and instrument maintenance and repair – since October 2017, we offer services of testing, maintenance and repair of instruments such as gauges, meters and variable-frequency drives.

OUR CUSTOMERS

Our top five customers accounted for approximately 7.1%, 17.5%, 29.1% and 11.1% of our revenues for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively.

Heat Supply

Our heat supply customers include residential and non-residential end-users located within our heat service area. During the Track Record Period, we had maintained a broad customer base within our heat service area in Changchun City. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had 258,098, 284,750, 306,966 and 306,966 customers, respectively. The top ten customers of our heat supply business are generally universities, hospitals, property developers and property management companies.

Construction, Maintenance and Design Services

During the Track Record Period, the customers of our construction, maintenance and design services are located within and outside Jilin Province. The industry in which the customers of our construction, maintenance and design services operate covers a broad range, including among others, heat supply, property development and civil construction. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we had 55, 52, 62 and 11 customers, respectively, of such services.

For the years ended 31 December 2017 and 2018 and the three months ended 31 March 2019, two of our main customers of our construction, maintenance and design services (which were the main contractors of the Three Supplies and Property Management Operations in connection with Shenyang Railway Bureau (瀋陽鐵路局) awarded by our Controlling Shareholder through a tender process) contributed to approximately 35.3%, 54.0% and 28.1%, respectively, of our total revenue in this business segment. Please refer to the section headed “Relationship with our Controlling Shareholder – Independence from our Controlling Shareholder” in this prospectus for details.

SUMMARY

PRICING

Heat Supply

According to the PRC Pricing Law, the PRC Government may direct, guide or adjust the prices of public utilities. The heat rate we charge our heat supply end-users is governed by Jilin Provincial Development and Reform Commission (吉林省發改委), which may be subject to adjustment due to various reasons, such as fluctuation in coal price, inflation and other local factors, after considering the opinions of different stakeholders including the heat supply end-users and the heat supply enterprises like our Company. Effective from the heat supply period of 2015-2016, heat rate in Changchun is RMB27 per sq.m. for residential properties, RMB34 per sq.m. for commercial properties and RMB31 per sq.m. for other properties, respectively. Heat rate for commercial properties reduced from RMB34 per sq.m. to RMB31 per sq.m. commencing from the heat supply period of 2016-2017. Meanwhile, our heat procurement price with the cogeneration plants is subject to a benchmark price governed by Changchun Municipal Development and Reform Commission (長春市發改委), Changchun Municipal Finance Bureau (長春市財政局) and Urban-Rural Development Committee of Changchun (長春市城鄉建設委員會), which may be adjusted after considering the cost (mainly includes the coal, water, electricity consumption cost and environmental cost) and reasonable profits of the cogeneration plants and the interests of the heat supply companies and the end-users. According to a guiding opinion issued by the pricing bureau of Jilin Province in July 2018, when the local weighted average coal price fluctuates by more than 10%, the above price adjustment mechanism may be triggered which may then lead to adjustment to the heat rate and heat procurement price correspondingly.

We do not have control over the prices or their adjustments as such adjustments are typically initiated by the relevant governing authorities and are subject to their final decision, and there may potentially be a mismatch between adjustments made to the heat procurement prices and the heat rates. We cannot assure you that we will be able to pass our increased costs to our heat supply end-users. For more information, please refer to the sections headed “Risk Factors – Risks relating to our Business – We do not have control over the pricing of heat supply (both heat procurement price with cogeneration plants and heat rates charging end-users) and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost”, “Business – Our Business Segments – Heat Supply – Sale of Heat – Pricing” and “Business – Our Business Segments – Heat Supply – Heat Procurement from Cogeneration Plants – Heat Procurement Price” in this prospectus.

Construction, Maintenance and Design Services

For construction, maintenance and design services, our prices are typically state-prescribed or state-recommended. Where there is no such guidance, we will make reference to the regional market prices, taking into account the costs for labor, raw materials, machineries, tools, as well as market prevailing rates.

SUMMARY

OUR SUPPLIERS

Our top five suppliers accounted for approximately 44.2%, 44.4%, 39.5% and 69.6% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively.

Heat Supply

During the Track Record Period, the local cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant were our suppliers of our heat procurement. Commencing from the heat supply period in October 2018, all of the heat demand is satisfied by heat procured from local cogeneration plants. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the total heat procurement cost was approximately RMB181.1 million, RMB199.0 million, RMB312.8 million and RMB228.1 million, representing approximately 24.9%, 21.6%, 25.7% and 61.1% of our total cost of sales for the same periods, respectively.

We primarily procured coal, electricity and water for the heat produced by coal-fired boilers. We procured electricity and water from the local public utility companies for heat generation, heat distribution as well as our daily operation. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we purchased coal for approximately 306,219 tons, 350,703 tons, 234,285 tons and nil, respectively. For the same periods, our coal cost was approximately RMB116.7 million, RMB160.0 million, RMB114.8 million and nil, respectively. The coal cost in 2018 substantially decreased compared to 2017 and 2016 and became nil for the three months ended 31 March 2019 since we completely ceased the heat production by coal-fired boilers in April 2018 thus ceased our coal procurement thereafter.

As a result of our cessation of heat production by coal-fired boilers, we are able to reduce staff requirement which was previously necessary in boiler operation and maintenance. We are less affected by fluctuation in coal price as we do not need coal procurement for the purpose of heat production by ourselves although the cogeneration plants remain fueled by coal. For the years ended 31 December 2016, 2017 and 2018, our average procurement cost for heat procured from cogeneration plants by heat service area was approximately in the range of RMB9.0/sq.m. to RMB10.5/sq.m., while the average cost for our heat production by coal-fired boilers by heat service area was approximately in the range of RMB8.5/sq.m. to RMB16.5/sq.m. Going forward, we will benefit from the effective cost structure reflected in the full satisfaction of our heat demand from cogeneration plants. While heat procured from cogeneration plants is more cost-effective, our reliance on the operations of the cogeneration plants increases as heat procured from cogeneration plants becomes the sole heat source of our heat supply. As such, our heat supply is more sensitive to the continuous operation of the cogeneration plants, heat procurement quota available to us and the heat procurement price applied to us. For further details, please refer to sections headed “Risk Factors – Risks Relating to Our Business - Any shortage of, disruption or suspension to, the supply of heat to us from

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the cogeneration plants could materially and adversely affect our heat supply business”, “Risk Factors – Risks Relating to Our Business – We did not enter into any long-term heat procurement agreements with the cogeneration plants, and any failure to renew the existing procurement agreement could materially and adversely affect our heat supply business”, “Business – Our Competitive Strengths” and “Business – Heat Supply – Heat Source” in this prospectus.

Construction, Maintenance and Design Services

Our suppliers for our construction, maintenance and design services are mainly the raw material and equipment manufacturers and/or trading companies as well as the third-party labor service providers. The key raw materials required for our construction, maintenance and design services, other than our design services, include steel, insulation materials, pipelines, valves, process equipment and electrical and instruments. During the Track Record Period, we sourced these raw materials from suppliers located in the PRC.

Our Competitive Landscape

According to the Frost & Sullivan Report, the centralized municipal heating markets in China, Northeast China and Jilin Province are fragmented while market concentration of municipal heating market area in Jilin Province is relatively higher than that in Northeast China and China. Most municipal heating enterprises in China are local companies. Major market participants in the PRC municipal heating market are (i) specialized heat service providers, (ii) subsidiaries of power generation groups, and (iii) property developers. In 2018, we are the largest heat service provider in Jilin Province and Changchun by heat service area, respectively. We believe that our leading market position, effective cost structure, smart heating network system, comprehensive heat-related services and experienced management team will continue to enable us to remain competitive in the future. Please see the section headed “Industry Overview – Competitive Landscape of the Municipal Heating Industry in the PRC” in this prospectus for further details on the markets in which we operate and for a discussion of our competition.

Our Competitive Strengths

We believe that our historical growth is attributable to the following competitive strengths:

- We were the largest heat service provider in Jilin Province in 2018 with leading market position and we operate in the heat supply market where there are significant barriers to entry;
- Our heat is currently fully sourced from the local cogeneration plants, which allows us to benefit from the cost effectiveness of this heat source;

SUMMARY

- We have adopted a smart heating network system, which allows us to conduct our heat supply business precisely and efficiently;
- Our heat supply business has a long history in Changchun with strong brand recognition and we are a comprehensive heat supply-related service provider; and
- We have an experienced and committed management team.

Please refer to the section headed “Business – Our Competitive Strengths” in this prospectus for further details.

Our Business Strategies

Leveraging on our experience and market reputation, we plan to implement the following strategies to achieve our goals:

- Further enhance our smart heating network system and improve operational efficiency;
- Continue to strengthen our construction, maintenance and design services capabilities; and
- Proactively seek potential opportunities in heat supply industry and strategically increase our market share within and outside Jilin Province.

Please refer to the section headed “Business – Our Business Strategies” in this prospectus for further details.

SHAREHOLDING STRUCTURE AND RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Our Controlling Shareholder, Changchun Heating Group is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by SASAC Changchun. Immediately upon completion of the Global Offering, assuming that the Over-allotment Option will not be exercised at all, our Controlling Shareholder will hold approximately 69.75% of our issued share capital, and will remain as our Controlling Shareholder.

Before the Reorganization, our Controlling Shareholder was principally engaged in the business of heat production, provision of heating services, heating engineering designs, heating facilities and pipelines construction and maintenance. During the Reorganization, Changchun Heating Group injected its operating assets and liabilities relating to heat supply and heat supply-related services into our Company. For more details about the Reorganization, please refer to the section headed “History, Development and Reorganization – Reorganization” in this prospectus.

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After the Reorganization, our Controlling Shareholder focuses on other business operations, namely, property management, water supply, pipeline manufacturing, sale of industrial steam and financial investments. However, our Controlling Shareholder retains certain businesses relating to heat supply and heat services (i.e. Excluded Businesses). We have also adopted adequate corporate governance measures to manage conflicts of interest arising from potential competing business and to safeguard the interests of our Shareholders. Please refer to the section headed “Relationship with Our Controlling Shareholder” in this prospectus for more details.

We have also entered into certain continuing connected transactions with our Controlling Shareholder including provision of construction, maintenance and design services and purchase of pipes in the ordinary course of our business. Please refer to the section headed “Connected Transactions” in this prospectus for details.

PRE-IPO INVESTMENTS

On 26 April 2018, we entered into a capital increase agreement, pursuant to which Changchun SCIO Group, a state-owned company, agreed to inject RMB28,000,000 in our Company and became our Pre-IPO investor. Following the completion of the Capital Injection, Changchun SCIO Group became a shareholder of our Company, holding 7% equity interest in our Company. Please refer to the section headed “History, Development and Reorganization – Reorganization – 3. Introduction of new shareholder as a Pre-IPO investor and capital injection” in this prospectus for further details.

SUMMARY OF MATERIAL RISK FACTORS

There are certain risks and uncertainties involved in our business operations and in connection with the Global Offering, many of which are beyond our control. Some of the major risks that could materially and adversely affect our business, financial condition and results of operations include:

- any shortage of, disruption or suspension to, the supply of heat to us from the cogeneration plants could materially and adversely affect our heat supply business;
- we completely ceased heat production by coal-fired boilers in April 2018. Hence, our historical results of operation and financial position in our heat supply business may not be indicative of our future performance;
- we are subject to potential adverse consequences due to users’ title defects associated with certain heat exchange stations we use to install heating equipment, which may materially and adversely affect our heat supply business;

SUMMARY

- we do not have control over the pricing of heat supply and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost; and
- our results of operations could be adversely affected if we are no longer entitled to the government grants currently or previously available to us.

You should read the entire section headed “Risk Factors” in this prospectus carefully before deciding to invest in the Offer Shares.

SUMMARY OF KEY FINANCIAL INFORMATION

The following tables set out a summary of our consolidated financial information for the periods indicated and have been derived from our consolidated financial statements as set out in the Accountants’ Report included in Appendix I to this prospectus. The summary of our consolidated financial information should be read together with the consolidated financial statements in Appendix I to this prospectus, including the accompanying notes and the information set out in the section headed “Financial Information” in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS.

Selected Items of Consolidated Statements of Profit or Loss and Comprehensive Income

The following table shows selected items from our consolidated statements of profit or loss and comprehensive income for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
	(Unaudited)				
Revenue	848,431	1,108,373	1,440,159	495,392	548,894
Cost of sales	(727,557)	(920,365)	(1,215,485)	(368,985)	(373,072)
Gross profit	120,874	188,008	224,674	126,407	175,822
Profit before tax	99,598	115,219	139,283	114,523	170,785
Profit for the year/period	<u>72,794</u>	<u>85,832</u>	<u>102,677</u>	<u>86,024</u>	<u>128,563</u>

SUMMARY

The following table sets out our gross profit and gross profit margin by segment for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>
	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>	<i>profit</i>
	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>
Gross Profit										
Heat supply	108,222	13.8%	143,478	16.8%	150,946	16.1%	121,999	26.0%	167,696	34.4%
Construction, maintenance and design services	12,652	19.0%	44,530	17.6%	73,728	14.7%	4,408	16.5%	8,126	13.2%
Total	<u>120,874</u>	<u>14.2%</u>	<u>188,008</u>	<u>17.0%</u>	<u>224,674</u>	<u>15.6%</u>	<u>126,407</u>	<u>25.5%</u>	<u>175,822</u>	<u>32.0%</u>

The gross profit for our heat supply business increased by approximately RMB35.3 million, or 32.6%, from RMB108.2 million in 2016 to RMB143.5 million in 2017, and remained relatively stable from 2017 to 2018. The gross profit margin for our heat supply business also increased from 13.8% in 2016 to 16.8% in 2017, primarily due to a decrease in the maintenance and repair cost for heat supply following completion of replacement of certain aged primary distribution pipelines and other major maintenance and repair work in 2016, and remained relatively stable from 2017 to 2018. The gross profit for heat supply business increased by approximately RMB45.7 million, or 37.5%, from approximately RMB122.0 million for the three months ended 31 March 2018 to approximately RMB167.7 million for the three months ended 31 March 2019, and the gross profit margin for heat supply business increased from 26.0% for the three months ended 31 March 2018 to 34.4% for the three months ended 31 March 2019, primarily due to the decrease in cost of sales of heat supply associated with coal-fired boilers since we have fully ceased the heat production by coal-fired boilers since April 2018. Due to seasonality and the heat supply period, the gross profit margin for January to March is generally higher than that annually. For details about seasonality of our financial conditions and business operation, please refer to the sections headed “Financial Information – Key Factors Affecting our Results of Operations – Seasonality” and “Business – Heat Supply – Seasonality” in this prospectus.

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The gross profit for our construction, maintenance and design services increased by approximately RMB31.8 million, or 252.0%, from RMB12.7 million in 2016 to RMB44.5 million in 2017, and our gross profit increased by approximately RMB29.2 million, or 65.6%, from RMB44.5 million in 2017 to RMB73.7 million in 2018. The gross profit margin for our construction, maintenance and design services decreased from 2016 to 2017, primarily due to lower profit margin recorded in certain engineering construction projects as we were in the process of developing our operation. The gross profit margin for our construction, maintenance and design services decreased from 2017 to 2018, primarily due to lower gross profit margin recorded in certain projects we operated in connection with the Three Supplies and Property Management Operations in 2018. Please refer to the section headed “Relationship with Our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion – (1) Three Supplies and Property Management Operations” in this prospectus for details. The gross profit for our construction, maintenance and design services increased by approximately RMB3.7 million, or 84.3%, from approximately RMB4.4 million for the three months ended 31 March 2018 to approximately RMB8.1 million for the three months ended 31 March 2019. However, our gross profit margin for construction, maintenance and design services decreased from 16.5% for the three months ended 31 March 2018 to 13.2% for the three months ended 31 March 2019, primarily due to lower gross profit margin recorded in certain engineering construction projects in relation to municipal construction.

Selected Items of Consolidated Statements of Financial Position

The following table shows selected items from our consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Total non-current assets	1,250,231	1,366,909	1,028,460	1,010,109	969,908
Total current assets	1,245,839	1,290,190	1,187,799	693,167	482,415
Total current liabilities	1,386,105	1,649,596	1,178,551	551,034	339,265
Net current					
(liabilities)/assets	(140,266)	(359,406)	9,248	142,133	143,150
Total non-current					
liabilities	666,487	714,774	535,392	521,546	513,895
Net assets	443,478	292,729	502,316	630,696	599,163

SUMMARY

We recorded a net current liability position as at 31 December 2016 and 2017 respectively. This is primarily due to (i) capital expenditures incurred in the amount of RMB326.1 million and RMB213.3 million in 2016 and 2017, respectively, for the acquisition of property, plant and equipment which were mainly for the construction of primary distribution pipelines connecting to No. 5 Cogeneration Plant and the construction of our integrated heat distribution network connecting No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant to our primary distribution network; and (ii) acquisitions of equity interest by our Group in certain associates and unlisted equity investments at fair value through other comprehensive income with a total amount of approximately RMB239.8 million by cash and cash equivalents in 2017 which were accounted for as deemed distributions as described below. Please refer to the relevant risk disclosed in section headed “Risk Factors – Risks Relating to Our Business – We recorded net current liabilities as at 31 December 2016 and 2017, and we cannot assure you that we will not experience a net current liability position in the future” in this prospectus for further details.

The change to net current assets as recorded in 2018 from our net current liabilities recorded in 2017 was primarily due to (i) a significant decrease in other payables and accruals by approximately RMB458.3 million mainly in relation to acquisition of property, plants and equipment and certain other payables and accruals being part of the Other Retained Assets and Liabilities which were not transferred to our Group during the Reorganization; and (ii) an increase in contract assets by RMB152.7 million and an increase in trade receivables by approximately RMB86.6 million primarily due to an increase in the volume of construction, maintenance and design services rendered, partly offset by (i) the absence of financial assets at fair value through profit or loss by approximately RMB162.0 million; and (ii) a decrease in cash and cash equivalents by approximately RMB122.8 million primarily due to cash outflows to operating activities.

We recorded a decrease in our net assets as at 31 December 2017 as compared to 31 December 2016, primarily due to a significant decrease in cash and cash equivalents by approximately RMB265.2 million, or 35.5%, primarily as a result of acquisitions of equity interest by our Group in certain associates and unlisted equity investments at fair value through other comprehensive income with a total amount of approximately RMB239.8 million by cash and cash equivalents in 2017. As these investments were unrelated to the Core Operations, they were not transferred to our Group during the Reorganization and were accounted for as deemed distributions to Changchun Heating Group during 2017 in the historical financial information of our Group.

Please refer to the section headed “Financial Information – Net Current Assets/Liabilities” in this prospectus for further details.

SUMMARY

Selected Items of Consolidated Statements of Cash Flows

The following table sets out a summary of our cash flows for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Operating profit before					
working capital changes	138,854	225,985	260,262	133,985	180,068
Net cash flows from/(used in)					
operating activities	305,940	31,899	(101,721)	7,758	(113,468)
Net cash flows used in					
investing activities	(431,183)	(261,120)	(52,675)	23,192	(36,816)
Net cash flows (used in)/from					
financing activities	(44,340)	(35,934)	31,626	(39,399)	(10,851)
Net decrease in cash and cash					
equivalents	(169,583)	(265,155)	(122,770)	(8,449)	(161,135)
Cash and cash equivalents at					
beginning of year/period	916,392	746,809	481,654	481,654	358,884
Cash and cash equivalents at					
end of year/period	746,809	481,654	358,884	473,205	197,749

We recorded negative net cash flow from operating activities for the year ended 31 December 2018 which was primarily attributable to approximately RMB352.6 million working capital adjustments which included (i) an increase in trade receivables and contract assets of approximately RMB266.4 million, primarily due to an increase in the volume of construction, maintenance and design services rendered in connection with the Three Supplies and Property Management Operations in 2018; and (ii) an increase in prepayments and other receivables of approximately RMB206.0 million, primarily due to the increase in prepayments of our heat procurement costs to the cogeneration plants as we have fully ceased heat production by coal-fire boilers in April 2018 and rely solely on heat procured from the local cogeneration plants. Please refer to the section headed “Financial Information – Liquidity and Capital Resources – Cash Flows” in this prospectus for further details.

We continue to record negative net cash flow from operating activities for the three months ended 31 March 2019, primarily attributable to (i) a decrease in contract liabilities of approximately RMB502.5 million resulting from revenue recognized from provision and distribution of heat for the three months ended 31 March 2019; and (ii) a decrease in trade payables of approximately RMB125.5 million, primarily due to payment to our major suppliers

SUMMARY

of the construction, maintenance and design services for the purchase of materials and labor. Please refer to the section headed “Financial Information – Liquidity and Capital Resources – Cash Flows” in this prospectus for further details.

We intend to improve our position of cash flow from operating activities by (i) enhancing our management of trade receivables by making timely records and closely monitoring the collection status of them on a continuous basis to ensure that they are promptly returned and payment reminders are sent, and follow-ups are made in a timely manner; (ii) bargaining for a longer credit period from our suppliers to minimize the time gap between the payments required for procurement of inventories and receipt of construction, maintenance and design service payment; and (iii) controlling the costs of inventories by monitoring such usage against the progress of our construction, maintenance and design services, taking into account the seasonality nature of our business operations. We may also maintain minimal inventory of material and supplies on an as-needed basis for our construction, maintenance and design services during the heat supply period.

Please refer to the relevant risk disclosed in section headed “Risk Factors – Risks Relating to Our Business – We recorded negative cash flows from operating activities during the Track Record Period. If we cannot obtain sufficient capital on acceptable terms to fund our operations, our business, financial condition and prospects may be materially and adversely affected” in this prospectus for further details.

Key Financial Ratios

The following table sets out certain key financial ratios as at the dates and for the periods indicated:

	As at/for the year ended 31 December			As at/for the three months ended 31 March
	2016	2017	2018	2019
Current ratio	0.9	0.8	1.0	1.3
Quick ratio	0.9	0.8	1.0	1.2
Return on total assets	3.2%	3.3%	4.2%	6.6% ^{Note}
Return on equity	19.0%	23.3%	25.8%	22.7% ^{Note}
Gearing ratio	0.5	0.9	0.2	0.2
Net debt to equity ratio	Net cash	Net cash	Net cash	Net cash
Net profit margin	8.6%	7.7%	7.1%	23.4%

Note: Actual percentage of the return for the financial period without taking into account of annualization due to the seasonality of our business.

Please refer to the section headed “Financial Information – Key Financial Ratios” in this prospectus for further details on, including the calculations of, the key financial ratios.

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USERS' TITLE DEFECTS ASSOCIATED WITH THE HEAT EXCHANGE STATIONS

As at 31 March 2019, we were unable to enter into free use agreements with the owners with proper title certificates for over 60% of the 466 heat exchange stations we used for the purpose of provision of heat supply, and potentially we may be requested to remove our equipment installed in those heat exchange stations and subject to claims by the proper owners of the heat exchange stations. However, based on the remedial measures taken, our Directors are of the view that the risks arising from the users' title defects will not have a material adverse impact on our business operations, financial conditions and results of operations. Please refer to section headed "Business – Properties – Users' Title Defects associated with the Heat Exchange Stations which we used" for details.

LISTING EXPENSES

Our listing expenses mainly consist of the aggregate underwriting commissions and fees paid to the Sole Sponsor, the Hong Kong Stock Exchange listing fee, SFC transaction levy and the Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Listing and the Global Offering. Assuming an Offer Price of HK\$2.20 per Share (being the mid-point of the indicative offer price range stated in this prospectus excluding any discretionary bonus), listing expenses which are payable by us are estimated to amount in aggregate to be approximately RMB53.6 million. We incurred listing expenses during the Track Record Period in the amount of RMB19.3 million, all of which were capitalized under the relevant accounting standards. We expect to capitalize an additional RMB26.9 million of the estimated listing expenses for the year ending 31 December 2019 and following the Listing under the relevant accounting standards. In addition, we expect to charge approximately RMB7.4 million to our consolidated statements of profit or loss for the year ending 31 December 2019. The listing expenses are subject to adjustments based on the actual amount incurred or to be incurred.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$197.5 million (assuming an Offer Price of HK\$2.20 per H share, being the mid-point of the Offer Price range stated in this prospectus) (equivalent to approximately RMB178.6 million), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering excluding discretionary bonus, and assuming no exercise of the Over-allotment Option. Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

- approximately HK\$80.5 million (equivalent to approximately RMB72.8 million), representing approximately 41.0% of the net proceeds from the Global Offering, will be used for further increasing the level of automation in our heat supply business by enhancing our smart heating network system;

SUMMARY

- approximately HK\$80.5 million (equivalent to approximately RMB72.8 million), representing approximately 41.0% of the net proceeds from the Global Offering, will be used for upgrading and replacement of existing primary distribution pipelines and heat supply facilities;
- approximately HK\$26.9 million (equivalent to approximately RMB24.3 million), representing approximately 13.0% of the net proceeds from the Global Offering, will be used in our heat service area expansion to grow our heat supply business, including necessary construction of primary distribution pipelines and heat supply facilities; and
- approximately HK\$9.6 million (equivalent to approximately RMB8.7 million), representing approximately 5.0% of the net proceeds from the Global Offering, will be used for potential acquisitions of heat service companies to complement our existing heat supply operations.

Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

DIVIDEND

During the Track Record Period, we did not declare or distribute any dividend. We currently do not have any pre-determined dividend payout ratio. In order to return capital to our Shareholders in line with our growth when it is appropriate to do so, we intend to adopt a general dividend policy of declaring and paying dividends with reference to dividends declared and paid by heating supply companies, our results of operations, cash flows, financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRSs (whichever is lower) and other factors that our Directors may consider relevant. We also intend to adopt in such general dividend policy a dividend payout ratio of no less than 30% of our annual distributable net profit provided that the aforesaid factors are properly taken into consideration. We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be decided by our Board at their discretion and will be subject to our Shareholders’ approval. In addition, our dividend policy will also be subject to our Articles of Association, the PRC Company Law, any other applicable PRC law and regulations.

Please refer to the section headed “Financial Information – Dividend Policy” in this prospectus for further details.

SUMMARY

GLOBAL OFFERING STATISTICS⁽¹⁾

Expected market capitalization ⁽²⁾	:	HK\$886,730,000 to HK\$1,166,750,000
Offer size	:	116,700,000 H Shares comprising (i) initially 11,670,000 H Shares (subject to adjustment) for subscription by the public in Hong Kong and (ii) an aggregate of 105,030,000 H Shares (subject to adjustment and the Over-allotment Option) offered under the International Offering
Offering structure	:	Initially 10% for the Hong Kong Public Offering (subject to reallocation) and 90% for the International Offering (subject to reallocation and the Over-allotment Option)
Offer price range	:	HK\$1.90 to HK\$2.50 per Offer Share
Board lot	:	2,500 H Shares
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	:	HK\$1.84 to HK\$1.98

Notes:

1. All statistics in the table are based on the assumption that the Over-allotment Option is not exercised.
2. The calculation of market capitalization is based on 466,700,000 Shares expected to be in issue immediately upon completion of the Global Offering.
3. The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in the section headed "Appendix II – Unaudited Pro Forma Financial Information" to this prospectus.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model remained unchanged and our revenue and cost structure remained stable. We were awarded 60 new projects under our construction, maintenance and design services of a total contract value of approximately RMB397.3 million subsequent to the Track Record Period and up to 31 July 2019. On 30 August 2019, a local bank offered our Company a revolving one-year banking facility in the amount of RMB500.0 million, without guarantee, in view of our good credit history. As at the Latest Practicable Date, we had drawn down approximately RMB10.7 million with a fixed interest rate of 4.35% per annum to finance our working capital.

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Our Directors confirmed that from 31 March 2019 up to the date of this prospectus, (i) there had been no material adverse changes in the market conditions or the industry and regulatory environment in which we operate that materially and adversely affect our financial or operating position; (ii) there had been no material adverse change in the operation or financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“2017 Transfer Agreements”	the agreements dated 31 December 2017 entered into between Changchun Heating Group and our Company, details of which are set out in paragraphs 1(a) and 1(b) of the section headed “Appendix VI – Statutory and General Information – B. Further information about our business” in this prospectus
“2018 Transfer Agreements”	the agreements dated 12 April 2018 entered into between Changchun Heating Group and our Company, details of which are set out in paragraphs 1(c) and 1(d) of the section headed “Appendix VI – Statutory and General Information – B. Further information about our business” in this prospectus
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Ancillary Businesses”	the businesses retained by our Controlling Shareholder which is ancillary to our businesses, which is a type of the Excluded Businesses. For details, please refer to the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion – (3) Ancillary Businesses” in this prospectus
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 1 February 2019 to take effect on the Listing Date, as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Bairun Heating”	Songyuan City Bairun Heating Supply Co., Ltd.* (松原市百潤供熱有限責任公司), a company established in the PRC on 9 December 2005 and is an Independent Third Party, which entrusted a subsidiary of our Controlling Shareholder to operate its heat supply operation in Songyuan City until 10 April 2019. Such entrustment arrangement was not renewed and ceased on 10 April 2019
“Biomass Power”	Jilin Province Chuncheng Biomass Power Co., Ltd.* (吉林省春城生物質能源有限公司), a limited liability company established in the PRC on 10 December 2018 and a wholly-owned subsidiary of our Company
“Board” or “Board of Directors”	the board of directors of our Company
“BOCI Asia Limited”	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under SFO
“Boiler Assets”	boiler related assets historically associated with the Core Operations of Changchun Heating Group and included in the historical financial information of our Group for the years ended 31 December 2016 and 2017, and were derecognized as a distribution to the Shareholder (i.e. Changchun Heating Group) on 1 January 2018. For details, please refer to Note 2.1 of the Accountants’ Report in Appendix I to this prospectus
“business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or CCASS Investor Participant
“Changchun FAWSN”	Changchun FAWSN Group Co., Ltd. (長春一汽富晟集團有限公司), a limited liability company established in the PRC on 19 June 1985 and an Independent Third Party
“Changchun Heating Group”	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司), our Controlling Shareholder, and a state-owned company established in the PRC on 28 April 1998 which held 93% of our issued share capital as at the Latest Practicable Date
“Changchun Runfeng”	Changchun City Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司), a limited liability company established in the PRC on 10 October 2012 and a wholly-owned subsidiary of our Company
“Changchun SCIO Group”	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), a state-owned company established in the PRC on 23 December 2003, which held 7% of our issued share capital as at the Latest Practicable Date
“Changre Electrical Apparatus”	Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱電氣儀錶有限公司), a limited liability company established in the PRC on 24 October 2017 and a wholly-owned subsidiary of our Company
“Changre Maintenance”	Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司), a limited liability company established in the PRC on 9 August 2016 and a wholly-owned subsidiary of our Company
“Changre Pipelines”	Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司), a limited liability company established in the PRC on 15 September 2017 and a wholly-owned subsidiary of our Company

DEFINITIONS

“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau Special Administrative Region and Taiwan
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Co-managers”	I Win Securities Limited and Sinomax Securities Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “the Company”	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司), a joint stock company with limited liability incorporated in the PRC on 23 October 2017 and was formerly known as Jilin Province Changre New Energy Co., Ltd.* (吉林省長熱新能源有限公司) and Jilin Province Chuncheng Heating Limited Liability Company* (吉林省春城熱力有限責任公司)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Framework Agreement”	the construction framework agreement dated 17 September 2019 entered into between our Company (for itself and on behalf of its subsidiaries) and our Controlling Shareholder (for itself and on behalf of its subsidiaries other than our Group), whereby our Group agrees to provide construction, maintenance and design services to our Controlling Shareholder Group for the Excluded Businesses. For details, please refer to the section headed “Continuing Connected Transactions – Non-exempt Continuing Connected Transactions – 1. Provision of construction, maintenance and design services to our Controlling Shareholder Group under construction framework agreements” in this prospectus
“Continuing Connected Transaction(s)”	the transaction(s) that will constitute continuing connected transaction(s) for our Company under Chapter 14A of the Listing Rules after the Listing which are set out in the section headed “Continuing Connected Transactions” in this prospectus

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“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refer to our controlling shareholder of our Company, being Changchun Heating Group
“Controlling Shareholder Group”	our Controlling Shareholder and its subsidiaries (other than members of our Group)
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Core Operations”	the principal operations and businesses of Changchun Heating Group that were transferred to our Company on 1 January 2018 for nil consideration pursuant to the Transfer Agreements. For details, please refer to Note 1 of the Accountants’ Report in Appendix I to this prospectus
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Datang JV”	Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司), a joint venture company established in the PRC on 23 March 2017 and an associate of our Controlling Shareholder, which was owned by our Controlling Shareholder and Datang Jilin Power Generation Co., Ltd. (大唐吉林發電有限公司) as to 35% and 65%, respectively, as at the Latest Practicable Date
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Domestic Share(s)”	Share(s) issued by our Company in the PRC, which are subscribed for in RMB
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), promulgated on 16 March 2007 and became effective on 1 January 2008, as amended and effective on 29 December 2018

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“EIT Rules”	the Regulation on the Implementation of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), promulgated on 6 December 2007 and became effective on 1 January 2008
“Excluded Business(es)”	the certain business(es) relating to heat supply and heat services retained by our Controlling Shareholder, including: 1. Three Supplies and Property Management Operations; 2. Excluded Heat Supply in the PRC; and 3. Ancillary Businesses, details of which are disclosed in the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion” in this prospectus
“Excluded Heat Supply in the PRC”	the heat supply businesses retained by our Controlling Shareholder, which is a type of the Excluded Businesses. For details, please refer to the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion – (2) Excluded Heat Supply in the PRC” in this prospectus
“Extreme Conditions”	extreme conditions caused by super typhoons, including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons, as announced by the government of Hong Kong
“FAW Sihuan”	Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司), a joint venture company established in the PRC on 17 October 2008 in which we held 50% equity interest as at the Latest Practicable Date
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent global market research and consulting company which was founded in 1961 and is based in the United States
“Frost & Sullivan Report”	an industry report prepared by Frost & Sullivan, which was commissioned by us
“GDP”	gross domestic product
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offer and the International Offering

DEFINITIONS

“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider designated by our Company, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, our Controlling Shareholder which is the predecessor operating our Group’s businesses
“H Share(s)”	ordinary shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Heat Operating Entity(ies)”	one or more entities established by our Controlling Shareholder in various locations to facilitate itself to participate in the Three Supplies and Property Management Operations formerly operated by Shenyang Railway Bureau (瀋陽鐵路局). The details of which are set out in the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion – (1) Three Supplies and Property Management Operations” in this prospectus
“Heat Supply Framework Agreement”	the heat supply framework agreement dated 17 September 2019 entered into between our Company (for itself and on behalf of its subsidiaries) and our Controlling Shareholder (for itself and on behalf of its subsidiaries other than our Group), whereby our Company agrees to supply heat to premises of our Controlling Shareholder Group. For details, please refer to the section headed “Connected Transactions – Fully Exempt Continuing Connected Transactions – 2. Heat supply to our Controlling Shareholder Group” in this prospectus

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“Heating Engineering Design”	Jilin Province Heating Engineering Design and Research Company Limited* (吉林省熱力工程設計研究有限責任公司), a limited liability company established in the PRC on 22 June 2007 and a wholly-owned subsidiary of our Company
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Public Offer Shares”	11,670,000 new H Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offering of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms as further described in the section headed “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus

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“Hong Kong Underwriting Agreement”	the underwriting agreement dated 26 September 2019 relating to the Hong Kong Public Offering and entered into by the Sole Global Coordinator, the Hong Kong Underwriters and our Company, among others, as further described in the paragraph headed “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement” in this prospectus
“IFRS”	International Financial Reporting Standards
“IIT”	individual income tax
“IIT Law”	Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), which was last amended on 31 August 2018 and implemented on 1 January 2019
“Independent Third Party(ies)”	a person who, as far as our Directors are aware after having made all reasonable enquiries, is not a connected person of our Company within the meaning of the Listing Rules
“International Offer Shares”	the 105,030,000 new H Shares being initially offered under the International Offering together, where relevant, with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the offer of the International Offer Shares at the Offer Price, outside the United States in offshore transactions in accordance with Regulation S, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering that are expected to enter into the International Underwriting Agreement to underwrite the International Offering

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“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into on or about the Price Determination Date among our Company, the Sole Global Coordinator and the International Underwriters, as further described in the paragraph headed “Underwriting – International Offering” in this prospectus
“Jilin Heating Group”	Jilin Province Heating Group Limited* (吉林省熱力集團有限公司), a company established in the PRC on 26 December 2016, which is a wholly-owned subsidiary of our Controlling Shareholder
“Jilin Xinda”	Jilin Province Xinda Investment Management Co., Ltd.* (吉林省新達投資管理有限公司), formerly known as Jilin Province Heating Investment Management Co., Ltd.* (吉林省熱力投資管理有限公司), a company established in the PRC on 5 June 2017, which was owned as to 25% by our Controlling Shareholder, Jilin Province Ruitong Investment Co., Ltd.* (吉林省瑞通投資有限公司) as to 29%, Changchun Kehua Investment Co., Ltd.* (長春市科華投資有限公司) as to 21%, Changchun Traffic Construction Investment (Group) Co., Ltd.* (長春交通建設投資(集團)有限公司) as to 15% and Beijing Raffles Investment Consulting Co., Ltd.* (北京萊佛士投資顧問有限公司) as to 10%, as at the Latest Practicable Date
“Latest Practicable Date”	20 September 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around 24 October 2019, on which our H Shares are listed on the Hong Kong Stock Exchange and from which dealings in our H Shares are permitted to take place on the Hong Kong Stock Exchange

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“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Lvxin Division”	Lvxin division (綠新分部) of our Controlling Shareholder which operates and manages the heat supply operation in the automobile development zone of Changchun City
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the GEM
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
“Mishazi Agreements”	the Biomass Power Cogeneration Plant Construction and Cooperation Agreement dated 3 August 2018 entered into between the People’s Government of Dehui City, People’s Government of Mishazi County and our Company and the Biomass Power Cogeneration Plant Construction and Cooperation Supplemental Agreement dated 15 March 2019, entered into between the People’s Government of Dehui City, People’s Government of Mishazi County, Dehui City, our Controlling Shareholder and our Company
“Mishazi Cogeneration Plant”	a cogeneration plant in Mishazi County (米沙子鎮), Dehui City, Changchun, Jilin Province to be built pursuant to the Mishazi Agreements
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)

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“MOHURD”	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Model Pipes”	Jilin Province New Model Pipes Co., Ltd.* (吉林省新型管業有限責任公司), a company established in the PRC on 27 July 2017 and is an associate of our Controlling Shareholder, which was owned by our Controlling Shareholder as to 35%, Changchun Yude Pipes Co., Ltd.* (長春禹德管業有限公司) as to 30%, Jilin Province Xinda Investment Management Co., Ltd.* (吉林省新達投資管理有限公司) as to 20% and Langfang Huayu Tianchuang Energy Equipment Co., Ltd.* (廊坊華宇天創能源設備有限公司) as to 15% as at the Latest Practicable Date
“No. 2 Cogeneration Plant”	Datang Changchun No. 2 Thermoelectricity Limited* (大唐長春第二熱電有限責任公司), Changchun Thermoelectricity Development Company* (長春熱電發展有限公司) (deregistered), Datang Jilin Power Generation Co., Ltd. Heating Branch* (大唐吉林發電有限公司熱力分公司), subsidiaries and branch of their holding company Datang Jilin Power Generation Co., Ltd.* (大唐吉林發電有限公司), which are Independent Third Parties and primarily engaged in power generation and heating generation businesses, and where the context requires, the cogeneration plant operated, individually or collectively by the above
“No. 4 Cogeneration Plant”	Huaneng Jilin Energy Sales Co., Ltd.* (華能吉林能源銷售有限公司) and Changchun thermal power plant of Huaneng Jilin Power Generation Co., Ltd.* (華能吉林發電有限公司長春熱電廠), the wholly owned subsidiary and branch of Huaneng Jilin Power Generation Co., Ltd.* (華能吉林發電有限公司), which are Independent Third Parties and primarily engaged in power generation and heat generation businesses, and where the context requires, the cogeneration plant operated, individually or collectively by the above

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“No. 5 Cogeneration Plant”	Jilin Electric Power Co., Ltd. Changchun Thermoelectricity Branch* (吉林電力股份有限公司長春熱電分公司), a company established in the PRC on 16 July 2014 principally engaged in electricity supply and heat production, which is an Independent Third Party
“Non-competition Agreement”	the agreement of non-competition entered into between our Controlling Shareholder and our Company dated 17 September 2019 in respect of certain non-competition undertakings given by our Controlling Shareholders in favor of our Group
“Northeast China”	the three provinces of Heilongjiang, Jilin and Liaoning which are located in the northeast of China
“NPC”	the National People’s Congress (全國人民代表大會常務委員會)
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees) of not more than HK\$2.50 and expected to be not less than HK\$1.90, such price to be agreed upon by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares
“Other Retained Assets and Liabilities”	certain land use rights, non-operating related property, plant and equipment, investment properties, intangible assets, deferred tax assets, inventories, trade and other receivables, cash, borrowings, deferred income, early retirement and supplemental benefit obligations, other payables, tax payable, etc. that were not transferred to our Company upon completion of the Reorganization, but were important components for the Core Operations. For details, please refer to Note 2.1 of the Accountants’ Report in Appendix I to this prospectus

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“Over-allotment Option”	the option granted by us to the Sole Global Coordinator, pursuant to which we may be required to allot and issue up to 17,500,000 additional H Shares (representing up to 15% of the H Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” of this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“People’s Congress”	the legislative apparatus of the PRC, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會)
“Pipes Supply Agreement”	the pipes supply framework agreement dated 17 September 2019 entered into between our Company (for itself and on behalf of our Group) and New Model Pipes, whereby New Model Pipes agrees to supply pipes for heating supply to our Group. For details, please refer to the section headed “Connected Transactions – Non-exempt Continuing Connected Transactions – 2. Purchase of pipes from New Model Pipes under the Pipes Supply Agreement” in this prospectus
“PRC Company Law” or “Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress of the PRC on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was subsequently amended on 28 December 2013 to take effect on 1 March 2014 and further amended and effective on 26 October 2018
“PRC Government” or “State”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them

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“PRC Legal Advisers”	Commerce & Finance Law Offices
“PRC Pricing Law”	<p>all the laws, regulations and rules governing the pricing of our heat supply and construction, maintenance and design services, including but not limited to the Pricing Law of the People’s Republic of China (《中華人民共和國價格法》), the Interim Measures for the Administration of Municipal Heat Supply Prices (《城市供熱價格管理暫行辦法》), the Notice on Regulating the Price of Heat Supply and Related Issues in the Municipal Area of Changchun City (《關於規範長春市城區供熱價格及有關問題的通知》), the Reply to Request for Approval of Heat Transmission Fee (《關於對核定供熱管網輸送費請示的批覆》), the Notice of Changchun Municipal People’s Government on Adjusting the Heat Supply Price in the Urban District of Changchun City (《長春市人民政府關於調整長春市城區供熱價格的通知》), the Notice on Adjusting the Heat Supply Price of the Service Industry in the Urban District of Changchun City (《關於調整長春市城區服務業供熱價格的通知》), the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), the Notice of the Jilin Provincial Price Bureau on the Cancellation of Construction Fees for Centralized Heat Supply Pipeline Networks (《吉林省物價局關於取消集中供熱管網建設費的通知》), the Notice in relation to the promulgation of Jilin Province Construction Project Price Determination Estimate Norm (《關於頒發吉林省建設工程計價定額的通知》), the Notice in relation to Metrological Verification Charging Standard Adjustments (《關於調整計量檢定收費標準的通知》), Jilin Province Metrological Verification Charging Standards (《吉林省計量檢定收費標準》) and Jilin Province Institute of Metrology Inspection and Calibration Fees and Price List (《吉林省計量科學研究院檢驗校準收費標準及價格清單》)</p>
“Price Determination Agreement”	the agreement to be entered into by the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price

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“Price Determination Date”	the date, expected to be on or around 17 October 2019, but no later than 23 October 2019, on which the Offer Price is fixed for the purpose of the Global Offering
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“R&D”	research and development
“Relevant Persons”	the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of their or the Company’s respective directors, officers, employees, partners, agents or advisers or any other person involved in the Global Offering
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the corporate reorganization of our Group in preparation for the Listing as described in the section headed “History, Development and Reorganization” in this prospectus
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SASAC Changchun”	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)
“SAT” or “State Administration of Taxation”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong

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“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the capital of our Company with nominal value of RMB1.00 per H share
“Shareholder(s)”	holder(s) of the Shares
“SOE(s)”	state-owned enterprise(s)
“Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager”	BOCI Asia Limited
“sq.m.”	square meters
“Stabilization Manager”	BOCI Asia Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	Codes on Takeovers and Mergers and Share Buy-backs
“Three Supplies and Property Management” (三供一業)	heat supply, water supply, electricity supply and property management services
“Three Supplies and Property Management Operations”	the businesses taken part by and to be transferred to the Heat Operating Entities of our Controlling Shareholder pursuant to the Three Supplies and Property Management Policy, which is a type of the Excluded Businesses. For details, please refer to the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion – (1) Three Supplies and Property Management Operations” in this prospectus

DEFINITIONS

“Three Supplies and Property Management Policy”	the state policy to, among others, segregate heat supply, water supply, electricity supply and property management services from those state-owned enterprises, which engage in these businesses as side businesses, to enterprises which are specialized to provide such services. For details, please refer to section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for exclusion – (1) Three Supplies and Property Management Operations” in this prospectus
“Track Record Period”	the three financial years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019
“Trademark License Agreement”	the trademark license agreement dated 31 December 2018 entered into between our Company and our Controlling Shareholder, whereby our Company is granted the use of a trademark by our Controlling Shareholder. For details, please refer to the section headed “Connected Transactions – Fully Exempt Continuing Connected Transactions – 1. Use of our Controlling Shareholder’s trademark under the Trademark License Agreement” in this prospectus
“Transfer Agreements”	the 2017 Transfer Agreements and 2018 Transfer Agreements
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated under it
“VAT”	value added tax

DEFINITIONS

“ WHITE Application Form(s)”	the form of application for Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be issued in the applicants’ own name
“ White Form eIPO ”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“ YELLOW Application Form(s)”	the form of application for Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be deposited directly into CCASS
“%”	Percent

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

GLOSSARY AND TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this prospectus in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“°C”	Celsius degree
“cogeneration”	a simultaneous production of electricity and heat, also known as combined heat and power or CHP
“GJ”	Gigajoule, a unit used to measure the amount of heat
“heat service area”	gross floor areas covered by heat supply, including both the heat service area which we fully and partially charge for our heat fees
“heat supply period”	the period between 20 October to the following 6 April each year from 1 October 2018 onwards (formerly between 25 October to the following 10 April each year)
“inner urban areas”	more established and populous areas of a city, often referred to as inner city or areas very close to the center of a city
“MW”	Megawatt. 1MW = 1,000kW. The installed capacity of a coal-fired boiler is generally expressed in MW
“non-residential end-user(s)”	end-users other than residential end-users, e.g., industrial end-users, commercial end-users and other end-users
“peak-shaving”	a process in the heat supply industry where demand of heat during peak time periods, or for emergency response, is supplemented by other heat source
“primary distribution network”	the two-way circulation network through primary distribution pipelines between heat sources (cogeneration plants or boilers) and heat exchange stations
“secondary distribution network”	the two-way circulation network through secondary distribution pipelines between heat exchange stations and end-users’ heating equipment
“water loss”	the amount of water that is lost during heat distribution process
“water loss rate”	the percentage of water loss during heat distribution process

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development of existing and new businesses, ability to implement such strategies and plans and expected time;
- our newly signed contract value and backlog;
- our financial position;
- our dividend policy;
- our ability to cut costs;
- the regulatory environment of the heat supply and construction, maintenance and design services industries in the PRC, overall industry outlook and competitive environment;
- the development of the capital market;
- certain statements in the sections entitled “Risk Factors”, “Industry Overview”, “Regulatory Overview”, “Business”, “Financial Information”, “Relationship with Our Controlling Shareholder” and “Future Plans and Use of Proceeds” with respect to interest rate trends, exchange rates, prices, volumes, operations, margins, risk management and overall market trends;
- developments and competition in the PRC and global heat supply and construction, maintenance and design services industries; and
- general economic conditions.

The words “aim”, “anticipate”, “believe”, “intend”, “continue”, “could”, “estimate”, “expect”, “going forward”, “propose”, “may”, “ought to”, “plan”, “potential”, “speculate”, “forecast”, “arrange”, “seek”, “should”, “target”, “will”, “might” and the negatives of these terms and other similar expressions, as they relate to us, identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including risk factors as set out in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future

FORWARD-LOOKING STATEMENTS

performance and you should not place undue reliance on such forward-looking information. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to publicly update or revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory environment which may differ significantly from those prevailing in other jurisdictions. For more information concerning the legal and regulatory system of the PRC and certain material matters set out below, please refer to the sections headed “Regulatory Overview”, “Appendix III – Taxation and Foreign Exchange”, “Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V – Summary of Articles of Association” in this prospectus.

RISKS RELATING TO OUR BUSINESS

Any shortage of, disruption or suspension to, the supply of heat to us from the cogeneration plants could materially and adversely affect our heat supply business.

Since April 2018, we procured all heat source from the cogeneration plants, thus we rely entirely on the continuous operations of these cogeneration plants and their supply of heat to us. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, in terms of volume, approximately 67.9%, 68.8%, 82.7% and 100% of our heat was procured from local cogeneration plants. For the same periods, our heat procurement cost was approximately RMB181.1 million, RMB199.0 million, RMB312.8 million and RMB228.1 million, representing approximately 24.9%, 21.6%, 25.7% and 61.1% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. As at the Latest Practicable Date, our heat supply was fully satisfied by the heat procured from three cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant (a new cogeneration plant which came into operation in the end of 2017). For more information in relation to our heat procurement, please refer to the section headed “Business – Heat Supply” in this prospectus. As a result, our heat supply in the past relied on the operations of the local cogeneration plants and such reliance will continue going forward. We cannot assure you that these local cogeneration plants are in normal operation as we expect at all times. Each of the cogeneration plants is equipped with multiple power generators which are able to back up each other in the event of technical failures or emergencies occur. For example, in February 2019, No. 2 Cogeneration Plant had experienced a reduction in heat supply for a few days due to malfunctioning of its electricity cable which triggered the operation of its back-up power generators. Also, we used heat supply from the other cogeneration plants through our integrated heat distribution network to supplement the shortfall. During the Track Record Period and up to the Latest Practicable Date, our heat supply business had not experienced any material adverse impact due to major production disruption and suspension in the cogeneration plants. We have also implemented a

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reporting and emergency response plan to ensure proper heat supply in case of heat supply shortage, disruption or suspension. However, in the event that such reporting and emergency response plan is ineffective or fails to perform, our heat supply to the end-users could be materially and adversely affected.

We did not enter into any long-term heat procurement agreements with the cogeneration plants, and any failure to renew the existing procurement agreement could materially and adversely affect our heat supply business.

We had entered into separate heat procurement agreements with the local cogeneration plants for each heat supply period. However, we did not enter into any long-term agreements with these cogeneration plants. For more information in relation to our heat procurement, please refer to the section headed “Business – Heat Supply” in this prospectus. We cannot assure you that the local cogeneration plants are willing to renew the heat procurement agreements with us upon expiry, or are always agreeable to a heat supply volume which matches with our expected demand. Any breach, termination or failure to renew the existing heat procurement agreements or the failure to secure alternative local cogeneration plants when there is a shortage of heat procurement could materially and adversely affect our heat supply business.

We completely ceased heat production by coal-fired boilers in April 2018. Hence, our historical results of operation and financial position in our heat supply business may not be indicative of our future performance.

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, in terms of volume, approximately 32.1%, 31.2%, 17.3% and nil of our heat was generated from the coal-fired boilers owned by our Controlling Shareholder. We discontinued in part our heat production by coal-fired boilers from February 2018 following our entering into a heat procurement agreement with No. 5 Cogeneration Plant which came into operation in end of 2017. Upon the expiration of the heat supply period in April 2018, we completely ceased our heat production by coal-fired boilers and all of the heat demand is satisfied by heat procurement from the local cogeneration plants. For reasons resulting in this change, please refer to the section headed “Business – Our Heat Production – Heat Production Facilities” in this prospectus. The operation and cost structure under heat procurement and heat production may be different significantly. Please refer to the section headed “Business – Heat Supply” in this prospectus for further details. As a result, our historical results of operation and financial position in our heat supply business may not accurately indicate our future performance.

We are subject to potential adverse consequences due to users’ title defects associated with certain heat exchange stations we use to install heat exchange equipment, which may materially and adversely affect our heat supply business.

As at 31 March 2019, we used 466 heat exchange stations in Changchun for the purpose of provision of our heat supply. We are a licensee who is entitled to install and operate the heat exchange equipment in these heat exchange stations. The heat exchange stations are typically

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constructed by the property developers or owners of the buildings within our heat service area and are typically situated in the common areas of these buildings. As we do not own or construct the heat exchange stations, we are not required to obtain the underlying construction related permits and title certificates. As a licensee, neither do we have the responsibility nor authority to apply for such title certificates. As advised by our PRC Legal Advisers, we should enter into free use agreements with the owners who possess the relevant title certificates in order to obtain proper license for the continuous use of the heat exchange stations. For over 60% of the 466 heat exchange stations in terms of number and the heat service area they served as at 31 March 2019, we were unable to enter into such free use agreements with the proper owners. We believe that the users' title defects were mainly attributable to the lack of complete and valid authority by the relevant parties which requested us to provide heat supply to grant us lawful licenses to use the heat exchange stations. As a result, we believe that the users' title defects were beyond our control and can only be rectified by relevant owners of such heat exchange stations.

As advised by our PRC Legal Advisers, the potential legal consequences of the users' title defects include: (i) our equipment installed in the heat exchange stations with users' title defects may be removed or requested to relocate; and (ii) we may be subject to claims (including, but not limited to, accounts for rents) made by the owners with relevant title certificates of the heat exchange stations with users' title defects. In the very unlikely event that we are requested to remove the equipment installed in the heat exchange stations with users' title defects, we estimate that the cost of relocating typical equipment and machinery to a new heat exchange station is in the range of approximately RMB30,000 to RMB60,000. Furthermore, as no claims had been initiated by the owners with relevant title certificates of the heat exchange stations with users' title defects as at the Latest Practicable Date, such compensation resulting from the claims are unascertainable to us. For more information as well as the remedial actions taken and enhanced internal control measures, please refer to the section headed "Business – Properties – Users' Title Defects associated with the Heat Exchange Stations which we used" in this prospectus.

Furthermore, we do not expect that the number of heat exchange stations with users' title defects can be reduced significantly in the future. We cannot assure you that we will not be ordered to remove or relocate the equipment installed in the heat exchange stations with users' title defects or subject to claims thereunder. If we are unable to continue to use the heat exchange stations and operate the equipment installed therein, or fail to remove and relocate the equipment to a desired new heat exchange station in a timely manner or on commercially reasonable terms, or at all, or are subject to massive claims, our ability to supply heat will be materially and adversely affected, which in turn may materially and adversely affect our business, financial conditions and results of operation.

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We do not have control over the pricing of heat supply (both heat procurement price with cogeneration plants and heat rates charging end-users) and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost.

According to the PRC Pricing Law, the PRC Government may direct, guide or adjust the pricing of heat supply (including heat procurement price with cogeneration plants which is governed by Changchun Municipal Development and Reform Commission (長春市發改委), Changchun Municipal Finance Bureau (長春市財政局), and Urban-rural Development Committee of Changchun (長春市城鄉建設委員會) and heat rates charging end-users which are governed by Jilin Provincial Development and Reform Commission (吉林省發改委)) and construction, maintenance and design services. Please refer to the sections headed “Regulatory Overview – Heat Supply – Pricing”, “Regulatory Overview – Enterprise qualification and license – Other Industry Sectors – Pricing”, and “Business – Heat Supply – Sale of Heat – Pricing”, and “Business – Construction, maintenance and design services – Pricing” in this prospectus for further information of the pricing of heat supply and construction, maintenance and design services in the PRC. The PRC Government may also adjust these pricing due to various reasons such as fluctuation in costs of raw materials, changes in demand level and overall economic development. We, however, do not have control over the prices or their adjustments as such adjustments are typically initiated by the relevant governing authorities and are subject to their final decision, and we may not be able to pass our increased costs to our heat supply end-users or construction, maintenance and design customers in a timely manner, or at all. For example, when the price of coal keeps rising to exceed a certain degree, the PRC Government may increase the ex-factory price of the cogeneration enterprises correspondingly which means a rise of our heat procurement cost. If the heat rates could not be adjusted proportionately in time, we may face a lower profit or even loss. Please refer to the sections headed “Industry Overview – Heat Source and Municipal Heating Price” and “Business – Heat Supply” for further details. In particular, on the one hand, the government has downward adjusted the heat rate of commercial properties and underground parking space in the public areas in Changchun from RMB34 per sq.m. to RMB31 per sq.m. and RMB16.5 per sq.m. to RMB15.5 per sq.m., respectively, for the heat supply period of 2016-2017 which has since remained the same thereafter, while on the other hand, the average heat procurement price (RMB/GJ) (VAT excluded) was increasing and was RMB24.3, RMB24.7, RMB26.4 and RMB28.6 for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. For details, please refer to the sections headed “Business – Heat Supply – Pricing – Heat rate” and “Financial Information – Key Factors Affecting our Results of Operations – Changes in PRC Government’s regulation over our business – Heat procurement price”. We cannot assure you that we are able to operate under a cost structure which is in line with the price adjustments. If we fail to proportionately adjust our costs in line with the price adjustments in a timely manner, or at all, we may not be able to maintain our profitability and our results of operations and financial position may be materially and adversely affected.

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We may not record certain income and gains that are non-recurring in nature in the future, which may adversely affect our revenue.

During the Track Record Period, we recorded certain income and gains that are non-recurring in nature which mainly included certain government grants, gain on disposal of items of property, plant and equipment and interest income from loans to related parties of a total amount of approximately RMB35.5 million, RMB34.8 million, RMB11.6 million and RMB0.4 million, respectively. Failure to record these income and gains in the future may adversely affect our revenue.

The government grants recognized under other income and gains were in the amount of approximately RMB14.4 million, RMB33.0 million, RMB11.6 million and RMB0.4 million for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively, which was in connection with certain financial support to local business enterprises for the purpose of encouraging business development in relation to heat supply. These government grants were not subject to any unfulfilled conditions and other contingencies, however are non-recurrent in nature. We cannot predict or guarantee the amount of subsidies to be granted for any specific project. The gains on disposal of items of property, plant and equipment in 2016 of approximately RMB21.1 million were a one-off gain from a compensation for land and gains on exchanges of asset. The interest income was recorded in the amount of approximately RMB1.8 million in 2017 in connection with loans we extended to related parties. Such loans to related parties were part of the Other Retained Assets and Liabilities and thus not included in the financial information for the year ended 31 December 2018 and will no longer be recorded as an income to us. Please refer to the sections headed “Financial Information – Principal Components of Our Income Statement – Other Income and Gains”, “Financial Information – Key Factors Affecting our Results of Operations – Government Grants Available to us” in this prospectus for details. For details in relation to Other Retained Assets and Liabilities, please refer to the sections headed “Financial Information – Basis of Presentation” and Note 1 to the Accountants’ Report in Appendix I to this prospectus.

The preferential tax treatments granted to us could expire or be discontinued.

According to the Provisional Regulations on VAT of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council in 2017 and the Extension of Notice relating to Preferential Policies for VAT, Real Estate Tax and Urban Land Use Tax for Heat Supply Enterprises (《關於延續供熱企業增值稅、房產稅、城鎮土地使用稅優惠政策的通知》) released by the Ministry of Finance and the State Administration of Taxation in 2019, VAT, property tax and urban land use tax for heat supply enterprises in “Three North” regions (including Jilin Province) enjoy preferential policies. Please refer to the sections headed “Regulatory Overview – Taxation and fees” and “Financial Information – Discussion of Certain Items of Consolidated Statements of Financial Position – Other Current Assets” for details. For example, during the Track Record Period, certain part of our income generated from heat supply to our residential end-users was exempted from VAT in accordance with the relevant tax policy in the heat supply industry. However, the PRC Government may review the

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preferential policies on an as-needed basis and may amend these policies accordingly. We cannot assure you that such exemption that we currently enjoy will not be unfavorably changed or discontinued. If we fail to maintain our qualification for this tax treatment, or if any such tax treatment expires or is discontinued, our tax expenses could change substantially, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any unexpected disruption of our heat supply to end-users could materially and adversely affect our heat supply business, financial condition and results of operations.

Our heat supply business is subject to operating risks and disruption, such as suspension of utilities supplies, including water and electricity, break down or failure of our equipment, damage or destruction in our heat distribution system, industrial accidents and natural disasters. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we had recorded four, five, one and nil incidents resulted from boiler failures, slag removal machine breakdown, water and electricity supply suspension and primary distribution pipelines leakage, and the relevant incidents had caused heat supply disruption and took us more than eight hours to resolve. However, we were able to resolve all such incidents within 15 hours from the occurrence of disruption, and we have not suffered loss resulting from refund or claims to our heat supply end-users or administrative penalty during the Track Record Period. We cannot assure you that we will not experience similar or more serious incidents in the future. In the event that any material disruption to our heat supply occurs, our ability to operate our heat supply business could be limited and our financial condition, results of operation and reputation may be materially and adversely affected.

We rely solely on an Independent Third Party to provide peak-shaving boilers to us in order to comply with the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》) and any shortage or failure to secure peak-shaving boilers may result in a breach of the regulations and potential fines.

Pursuant to the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), heat service providers using heat procured from local cogeneration plants are required to maintain peak-shaving boilers in order to respond to suspension or shortage in heat supply from the cogeneration plants. Failure to comply with such requirement may result in a fine ranging from RMB30,000 and RMB50,000. Please refer to the section headed “Regulatory Overview – Heat Supply – Enterprise qualification and license – Qualifications of municipal heat service providers” in this prospectus for details of the regulations.

In order to comply with the regulations, we entered into an agreement with an Independent Third Party to lease their peak-shaving boilers. Please refer to the section headed “Business – Heat Supply – Our Business Segments – Heat Procurement from Cogeneration Plants” for details of the agreement. We do not maintain any peak-shaving boilers ourselves. If the Independent Third Party refuses or fails to provide the peak-shaving boilers, we may not

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be able to find a replacement immediately and may result in a breach of the regulations, potential fines and negative publicity, and our business, results of operations and prospects may be materially adversely affected.

Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter.

We have not maintained insurance for our heat supply equipment or heat distribution system except for the property insurance for the manhole covers. While we believe our insurance practice is consistent with that in the industry, the lack of insurance coverage exposes us to risks associated with our business, including damages, liabilities or losses we may incur in the course of our business, which may be significant. Any uninsured occurrences of loss or damage to our heat supply equipment and heat distribution system may result in the disruption of our business operations, our Group incurring substantial costs and the diversion of resources, which may have a material and adverse effect on our business, financial position and results of operations. Moreover, there are certain losses for which insurance is not available in the PRC on commercially practicable terms. If we are held responsible for any such damages, liabilities or losses due to insufficiency or unavailability of insurance, there could be a material adverse effect on our business, financial position and results of operations. Please refer to the section headed “Business – Insurance” in this prospectus for further details.

Our aged primary distribution pipelines may need to be replaced depending on their useful life, which may require our additional capital expenditure and affect our heat distribution.

According to the Frost & Sullivan Report, the useful life of primary distribution pipelines generally ranges from 15 years to 20 years in the industry. The useful life of our primary distribution pipelines varies depending on their quality and usage. For more information regarding the useful life of our primary distribution pipelines, please refer to the section headed “Business – Our Business Segment – Heat Supply – Heat Distribution Network – Primary Distribution Pipeline” in this prospectus. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, approximately 1.9 kilometers, 3.0 kilometers, 3.1 kilometers and nil of our primary distribution pipelines aging from 11 years to 19 years were replaced. As at the Latest Practicable Date, approximately 5.7 kilometers and 5.5 kilometers of our primary distribution pipelines which had been used for over 20 years and 12 years have been scheduled for replacement in 2019 and 2020, respectively. Accordingly, an increase in capital expenditure should be anticipated. We may, under certain circumstances, engage contractors to conduct replacement required. However, the contractors may pass the increased costs to us if their costs increase. We cannot assure you that we are able to always meet the capital requirement arising from the replacements.

In addition, replacements of our aged primary distribution pipelines usually take place from April to October every year which is outside heat supply period. If we are unable to timely carry out the replacement works as planned, or at all, the efficiency in our heat distribution

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during the heat supply period may be impaired resulting from leakage or failure in the aged primary distribution pipelines. As a result, if we fail to replace the aged primary distribution pipelines as needed, our heat supply business may be materially and adversely affected.

We are subject to credit risk relating to the recoverability of our trade receivables and contract assets which are mainly incurred in our construction, maintenance and design services.

As at 31 December 2016, 2017 and 2018 and 31 March 2019, we recorded net trade receivables of RMB39.0 million, RMB113.5 million, RMB200.1 million and RMB205.5 million, respectively. Our trade receivables mainly represent the amounts receivable from customers of our construction, maintenance and design services and certain large end-users of our heat supply, such as governmental institutions and universities. Our receivable turnover days were 31 days, 33 days, 46 days and 37 days for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. We also record contract assets, which represent our rights to receive consideration for work completed but not yet billed because the rights are conditional on our future performance in satisfying the respective performance obligations at the reporting date in respect of construction contracts. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we made provisions for the expected credit losses of the contract assets with an expected loss rate of 7.55%, 5.71%, 7.45% and 6.58%, respectively. For the same period, the net impairment loss/(gain) recognized for our contract assets amounted to approximately RMB0.4 million, RMB5.6 million, RMB14.5 million and RMB(11.7) million, respectively. For details, please refer to the section headed “Financial Information – Discussion of Certain Items of Consolidated Statements of Financial Position – Contract Assets”.

There is no assurance that those customers will settle our invoices on time or in full. If those customers delay or default in payment, our cash flow and working capital may be materially and adversely affected. Any significant impairment in our trade receivables and contract assets as a result of significant uncertainty in recoverability or customers’ defaults or otherwise could materially and adversely affect our cash flow and liquidity, our financial condition and results of operation.

We are uncertain about the recoverability of our deferred tax assets.

As of 31 December 2016, 2017 and 2018 and as of 31 March 2019, our deferred tax assets amounted to RMB33.4 million, RMB35.3 million, RMB19.4 million and RMB16.6 million, respectively. For details, please refer to Note 16 to the Accountants’ Report in Appendix I to this prospectus. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized. This requires significant management judgement on determining the tax treatments of certain transactions and assessing the probability that adequate future taxable profits will be available for the

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deferred tax assets to be recovered. We cannot guarantee the recoverability or predict the movement of our deferred tax assets. Any failure to recover our deferred tax assets may adversely affect our financial positions in the future.

Our customers may make claims against us and/or terminate the agreements should we fail to meet the requirements in our heat supply agreements or project agreements relating to our construction, maintenance and design services, or fully satisfy the other requirements and expectations under applicable laws and regulations.

The operation of our heat supply business is subject to the terms of our heat supply agreements with our customers. According to our heat supply agreements, our customers are entitled to certain damages and refund of the heating fees of the period when the heating quality does not satisfy the legal standards. For example, pursuant to the Regulation on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), heat service providers are subject to compensations to end-users in the event that day and night average room temperature (including that in living rooms and bedrooms) is lower than 18°C under heat supply for residential end-users. Also, pursuant to Administrative Regulations on the Quality Management of Construction Engineering (《建設工程質量管理條例》), the contractor of construction engineering shall be responsible for the quality of such construction engineering. If we fail to perform to the satisfaction of our customers or fail to comply with relevant governmental policies and standards, it may lead to claims against us and/or the early termination of our services in whole or in part prior to the expiration of the term. Such failure may arise as a result of unsatisfactory project design or workmanship, staff turnover, human error, late delivery of services, default by our contractors, or misinterpretation of, or failure to adhere to, regulations and procedures by us or our contractors, some of which may be beyond our control. The claims against us and/or the termination of our services in whole or in part prior to the expiration of the term of the relevant agreements may adversely affect our business, financial condition, results of operations and prospects. In addition, in the event we are found liable for delays or failure to complete our projects to the satisfaction of our customers, we may be required to compensate our customers for their losses, which could further materially and adversely affect our business, financial condition, results of operations and prospects.

Our construction, maintenance and design services are subject to certain operational risks.

Our construction, maintenance and design services involve certain operational risks, which include the following:

- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our construction, maintenance and design projects;
- accidents during construction and maintenance;
- extreme adverse weather conditions, or fire, frost or other natural disasters;
- engineering, construction and equipment problems;

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- governmental or other statutory approvals or other approvals that are required for the construction of our projects may be delayed or denied; and
- ability to complete construction, maintenance and design services according to the work schedules required.

If we fail to manage these operational risks associated with our construction, maintenance and design services, we could not successfully provide these services or achieve the results we anticipate or at all. As a result, our reputation, financial condition and results of operations could be materially and adversely affected.

Shortages of, or price increases in, raw materials, equipment and labor necessary for our construction, maintenance and design services could materially and adversely affect our business.

Certain raw materials, equipment and labor are necessary to perform our contracts with customers for our construction, maintenance and design services and such raw materials, equipment and labor requirements may vary depending on our actual work to be performed under the contracts. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our costs for construction, maintenance and design services were approximately RMB53.8 million, RMB209.0 million, RMB426.9 million and RMB53.3 million, respectively. Particularly, the costs of raw materials used in construction, maintenance and design services were approximately RMB20.5 million, RMB56.3 million, RMB230.1 million and RMB23.5 million, respectively. We cannot assure you that raw material suppliers for our construction and maintenance projects are able to supply the required raw materials in the expected quantities or quality, at the prices acceptable to us, or at all. Furthermore, we may not possess the equipment required to carry out our construction, maintenance and design services. We may also have difficulties in hiring or retaining qualified staff at reasonable cost level and in a timely manner. In the event that shortage in raw materials, equipment and labor occurs, or the relevant costs increase, it is likely to reduce our service volume, which could materially and adversely affect our business.

Our revenue from our construction, maintenance and design services is mainly derived from projects which are non-recurrent in nature and our business depends significantly on our success rate on project tendering.

We provide construction, maintenance and design services to our customers on project basis which are non-recurrent in nature. During the Track Record Period, the majority of our projects were procured by us through responding to requests for quotations from our potential or existing customers or winning the bidding of the projects. Our contracts normally have a contractual duration from about twenty days to one year, some of which may have a guarantee period of up to two years.

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For the years ended 31 December 2017 and 2018 and the three months ended 31 March 2019, we principally derive our revenue for our construction, maintenance and design services from Customer F (吉林鐵道勘察設計有限公司) and Customer J (中鐵九局集團第四工程有限公司). The aggregate revenue attributable to them for the years ended 31 December 2017 and 2018 and the three months ended 31 March 2019 amounted to approximately RMB89.4 million, RMB270.2 million and RMB17.3 million, representing approximately 35.3%, 54.0% and 28.1% of our total revenue in this business segment for the same periods. Please refer to the section headed “Relationship with our Controlling Shareholder – Independence from our Controlling Shareholder” for details.

There is no assurance that we could achieve the same or higher tender success rate in the future as we did in the past. Accordingly, the number, scale and nature of projects and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business. In the event that we fail to secure new contracts or there is a significant reduction of contracts for bidding in the future, the business, financial positions and prospects of our Group could be materially and adversely affected.

Any change of business development plan or any adverse changes in the business or financial performance of Customer F and Customer J, including any liquidity problems, restructuring, winding up or liquidation, may also result in a higher level of credit risk for us. We cannot guarantee that we will be able to diversify our customer base by obtaining a significant number of new projects from our existing and/or potential customers.

We generated a significant portion of our revenue from our business operations in Changchun, and our results of operations and financial condition rely heavily on the economic and social conditions of Changchun as well as Jilin Province.

All of our heat supply business, as well as a majority of our construction, maintenance and design services, is provided in Changchun, capital city of Jilin Province. For the Track Record Period, most of our revenue was derived from our customers located within Jilin Province. While we will continue to grow our operations outside Jilin Province, we expect that Jilin Province, especially Changchun, will continue to be our principal market and place of operation.

In light of the concentration of our businesses in Changchun, we are exposed to risks associated with such geographical region, such as (i) decline in economic and social development, population, degree of industrialization and urbanization and the development of properties in Changchun and other main cities in Jilin Province; (ii) change of policy towards utilization of heat generated from cogeneration plants; (iii) decreases in electricity production and the heat generation from cogeneration plants as a byproduct; and (iv) climate change and natural disasters. The occurrence of any of these events could materially and adversely affect our heat supply business or our operation of heat related construction, maintenance and design services. In particular, according to the Frost & Sullivan Report, the total population of Changchun decreased slightly from 2013 to 2018 and the total population of Jilin Province also

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decreased at a CAGR of 0.3% over the same years, primarily due to (i) migration of local residents to southern part of China for better job opportunities, and (ii) lower birth rate recorded in Changchun and Jilin. While the urbanization rate, one of the main drivers of heat services market, of both Changchun and Jilin continues to grow steadily over the years, demand for heat services may decrease as the population continues to drop and the penetration of heat services increases year over year. In addition, we cannot assure you that the economic development in Changchun or Jilin Province will continue to develop as anticipated, or that the macro or local economic environment or PRC Government's policy on heat generated from cogeneration plants, or environmental protection will not change. If Changchun and Jilin Province experiences any adverse economic, political or regulatory conditions due to events beyond our control, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business experiences seasonality. As a result, our quarterly or periodical performance may not be an indicator of our performance.

Heat supply is subject to seasonality due to its business nature. Also, pursuant to the relevant rules and regulations, heat supply period is between 20 October of each year and 6 April of the following year from 1 October 2018 onwards (formerly between 25 October of each year and 10 April of the following year). Heat service providers are prohibited to postpone or early terminate the heat supply.

Furthermore, revenue from heat supply is recognized over the period of heat supply contract by reference to the progress towards complete satisfaction of the performance obligation. As a result, our revenue is higher in the first and fourth quarter during each financial year. In addition, our cost of sales for heat supply incurs during different periods of the year, i.e., heat procurement cost and coal cost incur over the heat supply period, while maintenance and repair cost incurs outside heat supply period during which maintenance and repair work is conducted and the rest of the cost components such as staff cost and depreciation spreads throughout the year. Therefore, our quarterly or interim results may not be a meaningful indicator of our overall performance.

You should be aware that our construction, maintenance and design services also experienced seasonality during the Track Record Period, due to the fact that most of the projects were undertaken outside the heat supply period to avoid interruption or suspension to the continuous heat supply. As a result, revenue generated from our construction, maintenance and design services was generally recognized in the second half of the year. As such, our interim results may not be a meaningful indicator of our annual performance.

Heat supply is affected by the overall weather condition during the heat supply period.

Our heat supply operation is subject to the weather condition during the heat supply period. Usually, higher level of heat consumption is required for the purpose of maintaining a desired in-room temperature in colder heat supply period as the outdoor temperature is generally lower. Higher heat consumption in turn increases the demand for heat procurement

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from cogeneration plants and/or coal consumption, which then increases the overall costs in heat supply, and vice versa. For example, we recorded an increase in the cost of sales in 2018, which was partly attributed to the generally lower temperature in the first quarter of 2018 as compared to the same period of the previous year which in turn resulted in higher consumption of coal and heat procured from cogeneration plants. We may experience cold winters with severe weather condition which is out of our control. As a result, our financial performance of heat supply business may vary depending on weather condition during heat supply period and you should not predict our results of operation merely based on our financial performance of heat supply business in a particular year.

We cannot assure you that the data we collect via our smart heating network system is accurate or satisfactory to operating our heat supply business.

Our smart heating network system serves a broad range of functions, including data monitoring, remote control, data analysis and surveillance monitoring, which enable us to generate and process a large amount of heat operating data, such as temperature, pressure value and heat amount. We therefore are exposed to risks inherent in handling large volumes of data and securing such data. There is no assurance that we will be able to continuously collect and retain sufficient data, or ensure the data accuracy, or improve our data technologies to satisfy our heat supply operating needs. We may also be subject to the PRC laws and regulations governing data collection and usage in the future. Any breach of such laws and regulations may result in potential legal liability, which could materially and adversely affect our reputation and business operation.

Our success depends on the continuous services of our Directors, Supervisors and senior management team and other key personnel. Any resignations by or investigations against our Directors, Supervisors or senior management team or key personnel may adversely affect our reputation and may harm our business and prospects.

Our future success depends upon the continuous services of our Directors, Supervisors and members of our senior management team. Our management team comprises experienced engineers, with extensive experience in the relevant industries. Please refer to the section headed “Directors, Supervisor and Senior Management” in this prospectus for further details. If one or more of our senior executives are unable or unwilling to continue in their present positions, we may not be able to replace them easily, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. As competition in the PRC for senior management and key personnel with experience in heat supply services industries is intense, and the pool of qualified candidates is limited, we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. If we fail to attract and retain qualified personnel, our business and prospects may be adversely affected.

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We may be subject to losses and our profit margins may decrease if we fail to control our costs in performing our all-inclusive construction services.

We provide certain engineering construction services on an all-inclusive basis under which we are required to procure all or a portion of raw materials necessary for the construction and bear the costs thereunder. During the Track Record Period, we recorded losses in one, two, nil and nil all-inclusive construction projects amounting to approximately RMB5,946, RMB449,364, nil and nil for the periods ended 31 December 2016, 2017 and 2018 and three months ended 31 March 2019, respectively. Please refer to the section headed “Business – Construction, Maintenance and Design Services – Engineering Construction”.

If we fail to control our costs in performing our all-inclusive construction services, we may be subject to cost overruns, which will in turn result in lower profit margin or even a loss for a project and our profitability may be materially and adversely affected.

We have limited control over FAW Sihuan and any actions taken by it may adversely affect our operation.

During the Track Record Period, our shares of profits of FAW Sihuan was approximately nil, nil, RMB1.5 million and RMB2.7 million, representing approximately nil, nil, 0.1% and 0.5% of our revenue for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. For more information, please refer to the section headed “Financial Information – Principal Components of our Income Statement – Share of Profits and Losses of a Joint Venture” in this prospectus. FAW Sihuan may have economic or business interests or goals inconsistent with ours, or take actions contrary to our instructions, requests or our policies or objectives, or have financial difficulties or have disputes with us as to the scope of its responsibilities and obligations. Moreover, as we do not have full control over the business and operations of FAW Sihuan, we cannot assure you that it has been, or will be in strict compliance with all applicable PRC laws and regulations. In the event that any problem occurs with respect to FAW Sihuan, our business, financial condition and results of operations may be adversely affected.

We recorded net current liabilities as at 31 December 2016 and 2017, and we cannot assure you that we will not experience a net current liability position in the future.

We recorded a net current liability position of approximately RMB140.3 million and RMB359.4 million as at 31 December 2016 and 2017, respectively and a net current asset position of approximately RMB9.2 million and RMB142.1 million as at 31 December 2018 and 31 March 2019, respectively. Please refer to the section headed “Financial Information – Net Current Assets/Liabilities” for detailed analysis of our net current liability position. We cannot assure you that we will be able to improve our liquidity and record net current assets in the future. If we were to have net current liabilities, we may face a shortfall of working capital and our operations may be constrained.

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We may not be able to expand our heat service area if we are not authorized by local government to operate in the areas we wish to cover, and our heat service area may be reduced if we are no longer authorized by local government to operate in any of our existing heat service areas.

We intend to strengthen our leading position in Changchun and Jilin Province heat supply market by expanding our heat supply service area through various channels. However, pursuant to the relevant PRC laws and regulations, heat service area of a particular heat service provider is subject to a municipal planning by the local government. We cannot assure you that our expansion plan in respect of obtaining new heat service area is in line with such municipal planning. If we are unable to obtain authorization from the government authority to operate in the areas we wish to cover in a timely manner or at all, our expansion plan for our heat supply business could be materially and adversely affected.

In addition, if the local government ceases to authorize us to operate in any of our existing heat service areas under the circumstances as stipulated by the relevant regulations such as changes in heat supply planning, our failure to supply heat in a safe and stable manner or occurrence of any major production safety accident, our heat service area may be reduced which may in turn materially and adversely affect our business, financial condition and results of operations.

We outsource part of our manual works to third-party labor service providers for our construction, maintenance and design services and we may not have full control over them.

Third-party labor service providers could impact our business to the extent that we engage in their services to perform our construction, maintenance and design services. When selecting them, we consider factors such as their construction capability, quality, price, skill, experience and certification. We require them to carry out their work in accordance with relevant quality, safety and environmental standards. However, our control over them is limited. We cannot assure you that they will comply with the standards at all times, which could result in our being subject to a breach of the relevant laws and regulations. Neither can we assure you that any such third-party labor service providers will provide satisfactory services or complete work within the agreed timeframe. Any removal or termination of unsatisfactory third-party labor service providers would require us to seek new providers, which would create delays and adversely affect our operations. In the event of fraud or misconduct by a labor service provider, we could also be exposed to material liability and be held responsible for damages, fines or penalties and our reputation may suffer.

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We may undertake acquisitions, investments, joint ventures or other strategic alliances, within and outside Jilin Province, which may not be successful or which otherwise may have a material adverse effect on our ability to manage our business.

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with other companies along the heat supply services industry value chain in China. Acquisitions of companies or businesses and participation in joint ventures or other strategic alliances are subject to considerable risks, including:

- our inability to integrate new operations, personnel, products, services and technologies into our existing business;
- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- a lack of local presence and familiarity with the regulatory and business environment in markets outside Jilin Province;
- difficulties in obtaining regulatory approvals in markets outside Jilin Province;
- failure to comply with laws and regulations as well as industry or technical standards of the markets into which we expand;
- exposure to operational, regulatory, market and geographic risks and additional capital requirements;
- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investments, joint venture formations or other strategic alliances;
- potential loss of, or harm to, employees or client relationships; and
- the diversion of financial, personnel or other resources from our existing businesses and technologies.

We cannot assure you that our efforts to expand our business within or outside Jilin Province will be successful. Any of the foregoing risks could result in failure to introduce our services in those markets, or significantly impair our ability to manage our business, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

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We may not have sufficient capital in support of our expansion which requires significant capital expenditure.

Our business operation and expansion require significant capital expenditures. According to the Frost & Sullivan Report, initial capital investment for a typical municipal heating project with a heat service area of 1.0 million sq.m. usually ranges from RMB100 million to RMB200 million. A significant increase in the costs of developing our heat supply business could materially and adversely affect our business, financial condition and results of operations. We thus require external financing to support the growth and expansion of our business. In the event that our current resources are not sufficient to support our needs, we may have to seek additional financing. Our ability to obtain external financing in the future is subject to a variety of factors, including (i) our financial condition, results of operation and cash flows; (ii) general market condition; (iii) changes in the monetary policy and interest rates. We cannot assure you that we will be able to raise the necessary capital to finance our planned capital expenditures on terms acceptable to us or at all. If we are unable to obtain such capital, our expansion plan may not be successful as we anticipate, which in turn could materially and adversely affect our business and results of operations.




We may be involved in legal proceedings and commercial or contractual disputes, which could have a material adverse effect on our business, results of operations and financial condition.

We may be involved in legal proceedings and commercial or contractual disputes in the ordinary course of our business. We cannot assure you that we will not be involved in various legal and other disputes in the future, which may expose us to additional risks and losses. In addition, we may have to pay legal costs associated with such disputes, including fees relating to appraisal, auction, execution and legal advisory services. Litigation and other disputes may lead to inquiries, investigations and proceedings by regulatory authorities and other governmental agencies and may result in damage to our reputation, additional operating costs and diversion of resources and management's attention from our core business. The disruption of our business due to judgment, arbitration and legal proceedings against us or adverse adjudications in proceedings against our Directors, senior management or key employees may have a material adverse effect on our reputation and our financial condition, results of operations and prospects.

The “Changre” brand name may be harmed or damaged, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We operate our services primarily under the “Changre” brand name during the Track Record Period. We entered into a trademark license agreement on 31 December 2018 with our Controlling Shareholder, pursuant to which our Controlling Shareholder agrees to irrevocably grant us license to use its trademark () within the PRC on a non-exclusive basis and in Hong Kong on an exclusive basis at nil consideration and for an indefinite term to accommodate our long-term business need. Please refer to the section headed “Business – Intellectual Property” in this prospectus for further details. We cannot assure you that there will not be any negative

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news or media coverage related to  which may harm or damage the brand name and its reputation. We may not be able to protect  brand name as we are not in a position to control or influence the conduct of the other parties that share such brand names with us. We also rely on our Controlling Shareholder to enforce our rights relating to the brand name against infringement. Any damage to the  brand name and any failure to protect the brand name could harm our reputation and result in the loss of our competitive advantage and materially and adversely affect our reputation and our financial condition, results of operations and prospects.

We recorded negative cash flows from operating activities during the Track Record Period. If we cannot obtain sufficient capital on acceptable terms to fund our operations, our business, financial condition and prospects may be materially and adversely affected.

We recorded negative net cash flow from operating activities of approximately RMB101.7 million and RMB113.5 million for the year ended 31 December 2018 and the three months ended 31 March 2019, respectively. Please refer to the section headed “Financial Information – Liquidity and Capital Resources – Cash Flows” in this prospectus for the analysis of our cash flow fluctuations. We cannot assure you that we will not experience negative net operating cash flow in the future. Negative net operating cash flow requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we may default on our payment obligations. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our business operations may be materially and adversely affected by acts of God and epidemics or pandemics which are beyond our control.

Natural disasters, epidemics or pandemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC and other parts of the world. Our business, operating results and financial condition may be adversely and materially affected if such natural disasters occur in the PRC or in the regions in which we have operations.

RISKS RELATING TO OUR INDUSTRIES

Any future changes in laws or regulations or enforcement policies in relation to the heat supply industry could materially and adversely affect our business, results of operations and financial condition.

The heat supply industry is subject to a broad range of laws and regulations in the PRC. As such, any significant change in government policies, rules and regulations in heat supply industry may materially and adversely affect our business, results of operations and financial condition.

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All major aspects of heat supply industry are strictly regulated by the relevant government authorities, including procurement price, retail price, and pipeline network construction and emission standards. Any change in existing laws and regulations or their interpretation that may affect our business or operations could require us to incur additional compliance costs or costly and time-consuming changes to our operations, either of which could materially and adversely affect our business, results of operations and financial condition. Please refer to the section headed “Regulatory Overview” in this prospectus for further details.

Some of the licenses, permits and certificates are subject to periodic review and renewal by the government authorities and the standards of compliance required may change over time. Any changes in the existing policies by the governmental authorities resulting in the imposition of more burdensome requirements may result in our failure to obtain or maintain such licenses, permits and certificates. Any such failure could subject us to fines and other penalties, which could have a material and adverse effect on our results of operations and business, financial condition, and prospects. Please refer to the section headed “Business – Regulatory Compliance – License, Permits and Certificates” in this prospectus for further details.

We may incur additional costs should the PRC Government adopt stricter or additional environmental laws or requirements.

We are subject to national and local environmental protection regulations in the PRC. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. We have incurred environmental compliance costs of RMB17.4 million, RMB14.6 million, RMB4.4 million and nil for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively, which were primarily related to the desulfurization, dust removal and waste discharge associated with the heat production by coal-fired boilers. We expect that our annual environmental compliance costs will be minimal for the year ending 2019 as we had ceased the heat production by coal-fired boilers since April 2018. Please refer to the section headed “Business – Environmental Compliance” in this prospectus for further details. If the relevant environment protection policies are strengthened, we may be required to invest more with respect to environmental protection which may materially and adversely affect our profitability.

The relevant environmental protection administration authorities may impose more stringent standards in the future which would increase our operational costs to meet such higher standards. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, we cannot assure you that the PRC Government will not impose additional laws or regulations, compliance with which may cause us to incur significantly increased costs,

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which we may not be able to pass on to our customers. We may need to upgrade existing technologies and facilities to meet the standards imposed by the relevant regulatory authorities, which will require higher financial, human and other resources.

Competition in the heat supply industry may increase and our inability to maintain our competitiveness could materially and adversely affect our financial performance.

The heat supply industry in China is highly fragmented, with a large number of service providers throughout the country. We compete primarily with heat supply service providers in China and new entrants to the market, and some of our competitors may have better access to financial resources, lower cost structures, higher levels of integration, better operating efficiency, more advanced technologies or longer operating histories. If we are unable to improve our services quality, maintain our operating efficiency and control our costs, we may not be able to compete effectively against our existing or new competitors and our sustainability and growth opportunities may be limited, which will materially and adversely affect our revenue and profitability.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

All of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in the PRC. In particular, the PRC Government continues to exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In the past, the PRC Government has implemented measures emphasizing the utilization of market forces in reforming the economy. However, the PRC Government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. Government economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may have an adverse effect on us.

Governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash and pay dividends effectively.

The RMB is not currently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. As our operations are primarily conducted in the PRC and substantially all of our revenue is denominated in RMB, fluctuations in the RMB exchange rate against other currencies did not have a material impact on our results of operations during the Track Record Period. Pursuant to existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange

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transactions (including dividend payouts) without submitting the certifying documents of such transactions to SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes, including direct overseas investment and various international loans, may require the prior approval or registration with SAFE. If we fail to obtain SAFE's approval to convert RMB into foreign currencies for such purposes, our capital expenditure plans, business operations and subsequently our results of operations and financial condition could be materially and adversely affected.

Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations.

Our Company is incorporated under the laws of the PRC and all of our activities are conducted in the PRC, hence our business operations are regulated primarily by PRC laws and regulations. PRC laws and regulations are based on written statutes, and past court judgments may be cited only for reference. Since 1979, the PRC Government has committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing economic matters, such as in foreign investment, company organization and management, business, tax and trade. However, China has not developed a fully-integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activity in China. Furthermore, as some of these laws and regulations are relatively new and frequently change, and because of the limited volume of published court decisions and their non-binding nature, and the Chinese administrative and judicial authorities have significant discretionary power in interpreting and implementing legislations and contractual terms, the interpretation and enforcement of these laws and regulations may involve uncertainties and may not be as consistent or predictable as in other jurisdictions.

Our Group is generally subject to laws, rules and regulations applicable to foreign investments in China. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities, thus we may have to resort to administrative and court proceedings to enforce the legal protections that we benefit from either by law or contract. Furthermore, the Chinese legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime after the violation. These uncertainties, together with any development or interpretation of the PRC law that is adverse to us, could materially and adversely affect our business, financial condition, results of operations, cash flows and prospects.

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It may be difficult to effect service of legal process and enforce judgments rendered by courts other than the PRC courts against us or our Directors, Supervisors or senior management residing in the PRC.

Our Company is a company incorporated under the laws of the PRC, and all of our Company's assets and all of our subsidiaries are located in the PRC. In addition, most of our Company's Directors, Supervisors and senior management members reside within the PRC, and the assets of our Company's Directors, Supervisors and senior management members may be located within the PRC. As a result, it may not be possible to effect service of legal process within the United States or elsewhere outside the PRC upon our Company, our assets located in China or most of our Company's Directors, Supervisors and senior management, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in any other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

On 14 July 2006, Hong Kong Court and the Supreme People's Court entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "Arrangement") (effective on 1 August 2008), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

Foreign individual holders of our H Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our H Shares remain uncertain.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H

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Shares. Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under IIT Law. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Generally, a tax rate of 10% shall apply to the dividends paid by our Company to foreign individuals without application to the applicable treaties. When a tax rate of 10% is not applicable, the withholding company shall (i) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under China's EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders which are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

There are uncertainties as to their interpretation and application by China's tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of H Shares and on gains realized on the sale or other disposition of H Shares. China's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRSs in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as

RISK FACTORS

determined under IFRSs, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares, and the liquidity, market price and trading volume of the H Shares may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range for our H Shares was the result of negotiations among us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and such Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to the Hong Kong Stock Exchange for the listing of, and the permission to deal in, our H Shares. However, there is no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. The market price, liquidity and trading volume of our H Shares may be volatile. Factors such as the following may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of additional H Shares by us or other Shareholders.

In addition, H shares of other PRC issuers listed on the Hong Kong Stock Exchange have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance.

RISK FACTORS

The sales or potential sales of substantial amounts of our H Shares in the public market (including any future offering) may affect the prevailing market price of our H Shares and our ability to raise capital in the future, and future additional issuance of securities may dilute your shareholdings.

The sales of substantial amounts of our H Shares or other securities related to our H Shares in the public market, or the issuance of new H Shares or other securities, or the market anticipation that such sales or issuance may occur, may cause fluctuations in the market price of our H Shares, and may materially and adversely affect our ability to raise capital at a time and at a price as we see fit in the future. Furthermore, if we issue additional securities in future offerings, the shareholdings of the Shareholders may be diluted.

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, any requisite internal approval by our Shareholders in a general meeting is duly obtained and the approvals from relevant PRC regulatory authorities are obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of listing of the public offering. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Hong Kong Stock Exchange one year after this Global Offering, which at that time could further increase the number of our H Shares available in the market and negatively impact the market price of our H Shares.

As the Offer Price of our H Shares is higher than the net tangible asset value per share, you will experience immediate dilution.

The Offer Price of our H Shares is higher than the net tangible asset value per share of the outstanding Shares issued to our existing Shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in the net tangible asset value, and the pro forma adjusted consolidated net tangible asset value per share of the Shares held by our existing Shareholders will increase. If, in order to expand our business in the future, we issue additional H Shares at a price below the net tangible asset value per share, the net tangible asset value per share of our H Shares held by the buyers of our H Shares may be diluted.

We cannot guarantee the accuracy of official government facts, forecasts and other statistics with respect to China, the Chinese economy and China's heat supply industry contained in this prospectus.

Official government facts, forecasts and other statistics in this prospectus relating to China, the Chinese economy and China's heat supply industry have been derived from official government publications. We believe that the sources of such information are appropriate sources, and we have taken reasonable care in extracting and reproducing such information. We

RISK FACTORS

have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager or any other party involved in the Global Offering, and no representation is given as to its accuracy. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official government facts, forecasts or statistics.

There will be a time gap of several business days between pricing and trading of our H Shares offered under the Global Offering.

The Offer Price of our H Shares sold to the public under the Global Offering will be determined on the Price Determination Date. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. As a result, investors of our H shares may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares may be subject to the risk that our H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the Price Determination Date and the date on which the dealing begins.

There can be no assurance if and when we will pay dividends in the future. Dividends declared in the past may not be indicative of our dividend policy in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRSs (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. Please refer to the section headed "Financial Information – Dividend" for further details of our dividend policy. In addition, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

RISK FACTORS

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industry and the Global Offering.

There has been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We make no representation as to and accept no responsibility for the appropriateness, accuracy, completeness or reliability of any of these projections, valuations or other forward-looking information about us or the Global Offering. To the extent that such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

According to Rules 8.12 and 19A.15 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must ordinarily reside in Hong Kong. Given that our business operations are principally located, managed and conducted in the PRC, the senior management team of our Group is and will continue to be based in the PRC to attend to their respective duties and our Group's head office is situated in, and all of our Directors (except for one of our independent non-executive Directors) currently reside in the PRC. Further, as each of the executive Directors has a vital role in our Group's operations, it is crucial for them to remain in close proximity to our Group's central management located in the PRC. Accordingly, we do not, and for the foreseeable future, will not, have a sufficient management presence in Hong Kong, for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules.

For the reasons set out above, our Directors consider that it would be practically difficult, unduly burdensome and not commercially feasible for us to appoint two Hong Kong residents as executive Directors or to relocate any of the existing executive Directors to Hong Kong merely for the purpose of complying with Rule 8.12 and Rule 19A.15 of the Listing Rules.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements set out in Rules 8.12 and 19A.15 of the Listing Rules. We have made arrangements to maintain effective communication between the Stock Exchange and us as follows:

- (i) both of our Company's authorized representatives, Mr. XU Chungang and Mr. WAN Tao ("Mr. WAN"), will act as our principal channel of communication with the Hong Kong Stock Exchange. Each of Mr. XU Chungang and Mr. WAN has confirmed that he possesses valid travel documents and is able to renew such travel documents when they expire in order to travel to Hong Kong to meet with the Hong Kong Stock Exchange within a reasonable time upon request of the Hong Kong Stock Exchange, if required. They will be readily contactable by home, office, mobile and other telephone numbers, email address and correspondence address, facsimile numbers if available, and any other contact details prescribed by the Hong Kong Stock Exchange from time to time; are authorized to communicate on behalf of our Company with the Hong Kong Stock Exchange; and will be available to meet with the Hong Kong Stock Exchange to discuss any matters within a reasonable period of time upon request of the Hong Kong Stock Exchange;
- (ii) both of the authorized representatives have all necessary means of contacting all Directors (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Hong Kong Stock Exchange, the

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

authorized representatives and our Directors, our Company has implemented a policy whereby (a) each Director will provide his or her office phone numbers, mobile phone numbers, residential phone numbers, office facsimile numbers and email addresses to the authorized representatives; (b) each Director will provide valid phone numbers or means of communication to the authorized representatives when he or she travels and/or otherwise be out of office; and (c) all Directors have provided their mobile phone numbers, office phone numbers, email addresses and facsimile numbers to the Hong Kong Stock Exchange;

- (iii) our Company, in accordance with Rule 3A.19 of the Listing Rules, has appointed Messis Capital Limited as our compliance adviser, who will act as an additional channel of communication with the Hong Kong Stock Exchange. Pursuant to Rule 19A.05(2) of the Listing Rules, our Company will ensure that Messis Capital Limited shall have access at all times to its authorized representatives, Directors and members of the senior management. Our Company will also procure that such persons provide promptly to Messis Capital Limited such information and assistance as it may need or may reasonably request in connection with the performance of the compliance adviser's duties as set out in Chapter 3A and Chapter 19A of the Listing Rules. Messis Capital Limited will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results and its annual report for the first full financial year following the Listing;
- (iv) meetings between the Hong Kong Stock Exchange and our Directors could be arranged through the authorized representatives or our Company's compliance adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Hong Kong Stock Exchange promptly in respect of any change in our Company's authorized representatives and compliance adviser; and
- (v) each Director who does not ordinarily reside in Hong Kong has confirmed that either he or she possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable period.

In these circumstances, our Company and its Directors do not envisage that there should be any difficulty for the Hong Kong Stock Exchange to contact (if required) any of the executive Directors and believe that the arrangements set out above are sufficient to maintain effective communication between our Company and the Hong Kong Stock Exchange. Our Directors will ensure that disclosure of information and communication with the Hong Kong Stock Exchange will be made on a timely basis.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Pursuant to Rule 3.28 of the Listing Rules, the secretary of our Company must be a person who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary. The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (i) a member of The Hong Kong Institute of Chartered Secretaries;
- (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and
- (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing “relevant experience”, the Hong Kong Stock Exchange will consider the individual’s:

- (i) length of employment with the issuer and other issuers and the roles he played;
- (ii) familiarity with the Listing Rules and other relevant laws and regulations including the Securities and Future Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

We have appointed Mr. WAN Tao (“**Mr. Wan**”) and Ms. TONG Suet Fong (“**Ms. Tong**”) as the joint company secretaries of our Company. Mr. WAN has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Our Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, on the condition that Ms. TONG is engaged as a joint company secretary and provides assistance to Mr. WAN in discharging his duties as a company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules during this period. As a member of The Hong Kong Institute of Chartered Secretaries, Ms. TONG meets the relevant requirements under Note 1 to Rule 3.28 and Rule 8.17 of the Listing Rules. The waiver will be revoked immediately if Ms. Tong ceases to be a joint company secretary and ceases to provide assistance and guidance to Mr. Wan.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Ms. TONG will work closely with Mr. WAN to jointly discharge the duties and responsibilities as company secretary and assist Mr. WAN to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. Mr. WAN will also be assisted by (a) Messis Capital Limited, the compliance adviser of our Company for the first full financial year from the Listing Date, particularly in relation to Hong Kong corporate governance systems and compliance issues; and (b) the Hong Kong legal advisers of our Company, on matters concerning our Company's ongoing compliance with the Listing Rules and the applicable laws and regulations. In addition, Mr. WAN will endeavor to attend relevant training and familiarize himself with the Listing Rules and duties required for a company secretary of a PRC issuer listed on the Hong Kong Stock Exchange.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into, and expects to continue after the Listing, certain transactions which will constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements regarding the announcement as set out in Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions.

For further details of such non-exempt continuing connected transactions, please see the section headed "Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our 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 our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus 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 prospectus misleading.

APPROVAL OF THE CSRC

The CSRC has given its approval for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on 4 June 2019. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Sole Global Coordinator. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis. The International Underwriting Agreement is expected to be entered into on or about 17 October 2019, subject to agreement on the Offer Price among us and the Sole Global Coordinator (for itself and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed “Underwriting” in this prospectus.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Restrictions on Offer and Sale of the Offer Shares

Each person acquiring the Hong Kong Public Offer Shares will be required to, or be deemed by his/her/its acquisition of the Hong Kong Public Offer Shares to, confirm that he/she/it is aware of the restrictions on offers of the Hong Kong Public Offer Shares described in this prospectus and the related Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and the related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of our or their respective directors, senior managers or representatives, or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for the Hong Kong Public Offer Shares, see the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Public Offer Shares” in this prospectus and the relevant Application Forms.

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee for the listing of, and permission to deal in the H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option). Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on 24 October 2019.

Save as disclosed in this prospectus, no part of our share capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on the H Share register will be subject to Hong Kong stamp duty. See “Appendix III – Taxation and Foreign Exchange” in this prospectus for further details.

Professional Tax Advice Recommended

Applicants for the Hong Kong Public Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in H Shares. It is emphasized that none of us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and our or their respective directors, officers, employees, advisers, agents or representatives, nor any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, or dealing in the H Shares or exercising any rights attached to them.

Registration of Subscription, Purchase and Transfer of H Shares

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and senior officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and senior officers, agree with each of our Shareholders to refer all disputes and claims concerning our Company's business on the basis of the rights or obligations provided in the Company Law or other relevant laws and administrative regulations to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. See "Appendix V – Summary of Articles of Association" in this prospectus for further details;
- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders, unless otherwise provided in the prospectus; and
- (iv) authorizes us to enter into a contract on his behalf with each of our Directors and senior officers whereby such Directors and senior officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Over-Allotment Option and Stabilization

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the sections headed “Structure of the Global Offering – Over-allotment Option” and “Structure of the Global Offering – Stabilization” in this prospectus, respectively.

Procedure for Application for Hong Kong Public Offer Shares

The procedure for applying for the Hong Kong Public Offer Shares is set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus and in the Application Forms.

Structure of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

H Shares will be Eligible for CCASS

Subject to the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the H Shares and our Company complying with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

Currency Translations

Solely for your convenience, this prospectus contains translation of certain Renminbi amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Hong Kong dollars into Renminbi has been made at the rates of RMB0.9042 to HK\$1.00 and RMB7.0846 into US\$1.00, respectively, being the PBOC rates prevailing on 12 September 2019 for foreign exchange transactions; the translation of Hong Kong dollars into U.S. dollars has been made at the rate of HK\$7.8262 into US\$1.00, as set out in the weekly statistical release of the Federal Reserve Bank on 12 September 2019. Further information on exchange rates is set out in “Appendix III – Taxation and Foreign Exchange” in this prospectus.

Language

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of the PRC nationals, entities (including certain of our subsidiaries), departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name shall prevail.

Rounding

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions or hundred millions, certain amounts of less than one hundred, one thousand, ten thousand, one million or a hundred million, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million or hundred million, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth or hundredth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
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Chairman of the Board of Directors and Non-executive Director

Mr. LIU Changchun (劉長春)	Room 1101 Building 5 Yi'an Garden Chaoyang District Changchun City Jilin Province PRC	Chinese
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Executive Directors

Mr. YANG Zhongshi (楊忠實)	Room 1104, Gate 2 Building 3 Reli Apartment Dongling Street Nanguan District Changchun City Jilin Province PRC	Chinese
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Mr. SHI Mingjun (史明俊)	Room 1101 Building 1 Reli Apartment Dongling South Street Nanguan District Changchun City Jilin Province PRC	Chinese
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Mr. XU Chungang (徐純剛)	Room 502 Building 5 Jinshui Jiayuan No. 7268 Yatai Street Nanguan District Changchun City Jilin Province PRC	Chinese
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Mr. LI Yeji (李業績)	Room 1809, Unit 3 Building 6 Dikuang Garden Chaoyang District Changchun City Jilin Province PRC	Chinese
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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent Non-executive Directors

Mr. WANG Yuguo (王玉國)	Room 1408, Building 3, Changying Shiji Village, Chaoyang District, Changchun City, Jilin Province, PRC	Chinese
Mr. FU Yachen (付亞辰)	Unit 302, Gate 3, Block 7, Caiyuan Jiayuan, Jinhe Street, Jingyue Street, Changchun City, Jilin Province, PRC	Chinese
Mr. POON Pok Man, Coca (潘博文)	Flat H, 20/F, Block 7, Metro Harbour View, 8 Fuk Lee Street, Tai Kok Tsui, Kowloon, Hong Kong	Chinese

SUPERVISORS

Name	Address	Nationality
Mr. WANG Fenghua (王風華)	No. 7 Heping Street, Lvyuan District, Changchun City, Jilin Province, PRC	Chinese
Ms. WANG Xuejing (王雪晶)	Room 401, Building 21, CITIC City Central Park, Jingyue Development Zone, Changchun City, Jilin Province, PRC	Chinese
Ms. LI Xiaoling (李曉玲)	Room 606, Unit 3, Building C1-5, Baoli Luolan Xianggu Community, High-tech Industrial Development Zone, Changchun City, Jilin Province, PRC	Chinese

Further information is set out in the section headed “Directors, Supervisors and Senior Management” in this prospectus.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor, Sole Global Coordinator,
Sole Bookrunner and Sole Lead
Manager**

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Co-Managers

I Win Securities Limited
Room 1916, Hong Kong Plaza
188 Connaught Road West
Hong Kong

Sinomax Securities Limited
Room 2705-6, 27/F, Tower One
Lippo Centre
89 Queensway
Hong Kong

Legal Advisers to our Company

as to Hong Kong law:
Eversheds Sutherland
37/F, One Taikoo Place, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

as to PRC law:
Commerce & Finance Law Offices
6F NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

Legal Advisers to the Underwriters

as to Hong Kong law:
Hogan Lovells
11th Floor, One Pacific Place
88 Queensway
Hong Kong

as to PRC law:
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CORPORATE INFORMATION

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*(information contained in this website does
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Mr. LIU Changchun (劉長春先生)
Mr. WANG Yuguo (王玉國先生)

Remuneration Committee

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(Chairman)
Mr. XU Chungang (徐純剛先生)
Mr. POON Pok Man, Coca (潘博文先生)

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Changchun City, Jilin Province
PRC

INDUSTRY OVERVIEW

The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. The information has not been independently verified by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of our or their respective directors, officers or representatives or any other person (excluding Frost & Sullivan) involved in the Global Offering and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of the PRC.

OVERVIEW OF THE MUNICIPAL HEATING INDUSTRY IN THE PRC

Definition and Classification of the Municipal Heating Industry

Centralized heating industry is one kind of utilities industries in which heat generated in a centralized location is distributed to end-users to meet their requirements such as space heating and water heating. The heat is often obtained from a boiler or cogeneration plant burning fossil fuels but increasingly also from biomass, geothermal heating, natural gas and etc.

By application, centralized heating can be divided into industrial heating and municipal heating. Industrial heating provides heat for industrial users like chemical factories, textile factories, to meet the demand for heat in the production process. Meanwhile, municipal heating can be categorized into heating for residential buildings and heating for commercial buildings. Currently, centralized heating market is mainly located in Northeast, Northwest and North China. Compared with heating supplied by small capacity boilers, centralized heating has the following advantages: 1) significantly increase of efficiency in operation and stability of heat supply; 2) environmental friendly; 3) saving labor costs and land resources; 4) high energy efficiency. Recently, more and more centralized heating uses co-generation as heat source, which is currently regarded as one of the most economical and efficient ways of heating generation and meets the requirement of state policy in terms of environment protection and green production.

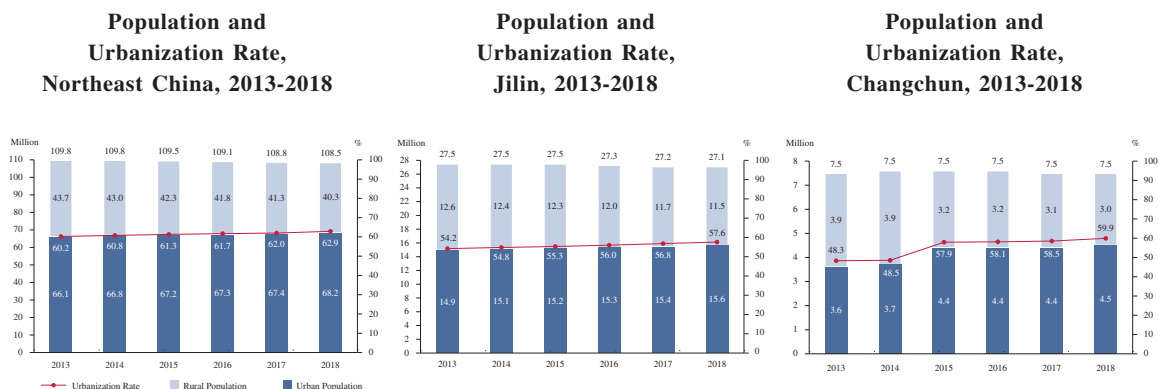
INDUSTRY OVERVIEW

Overview of Macro Economy in Northeast China, Jilin and Changchun

Population and Urbanization in Northeast China, Jilin and Changchun

Total population of Northeast China slightly decreased from 109.8 million in 2013 to 108.5 million in 2018, demonstrating a decline trend with a CAGR of -0.2%. Nevertheless, the progress of urban development and construction has been moving forward in Northeast China. The total number of urban residents grew from 66.1 million to 68.2 million during 2013 to 2018, resulting in the increase of urbanization rate (60.2% in 2013 to 62.9% in 2018) within the region. As for each province, the number of urban residents is all showing upward trend. Meanwhile, the steady increase in the number of urban residents has created market potentials for living-supportive facilities construction.

Jilin's total population declined slightly from 27.5 million in 2013 to 27.1 million, with a CAGR of -0.3%. The number of urban residents grew from 14.9 million to 15.6 million within the aforementioned time period, resulting in urbanization rate to reach 57.6% in 2018. The total population of Changchun decreased slightly from 2013 to 2018, to around 7.5 million. The urbanization rate of Changchun achieved 59.9% in 2018, ahead of Jilin's average.



Source: National Bureau of Statistics, Frost & Sullivan

Heat Supply Capacity of Municipal Heating Market

Municipal heating market in Northeast China

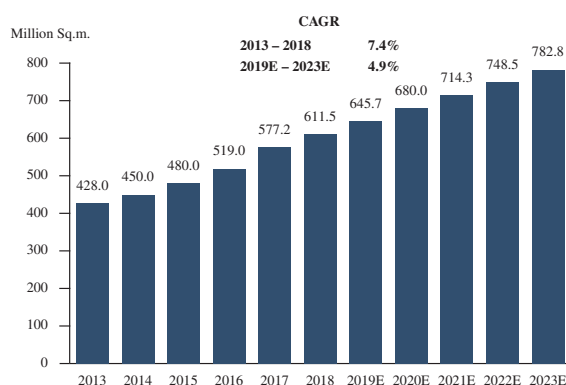
The total areas of municipal heating in Northeast China, increased from 1.9 billion sq.m. in 2013 to 2.6 billion sq.m. in 2018, with a CAGR of 6.5%. Correspondingly, the pipeline length increased from 65.3 thousand km in 2013 to 99.6 thousand km in 2018, with a CAGR of 8.8%. The growth rate of the areas of municipal heating from 2019 to 2023 is expected to be lower because of relatively high penetration rate of municipal heating in cities of Northeast China. The total areas is expected to increase to 3.1 billion sq.m. in 2023, with a CAGR of 3.5% from 2019 to 2023. Correspondingly, the pipeline length will increase to 125.7 thousand km in 2023, with a CAGR of 4.7% from 2019 to 2023.

INDUSTRY OVERVIEW

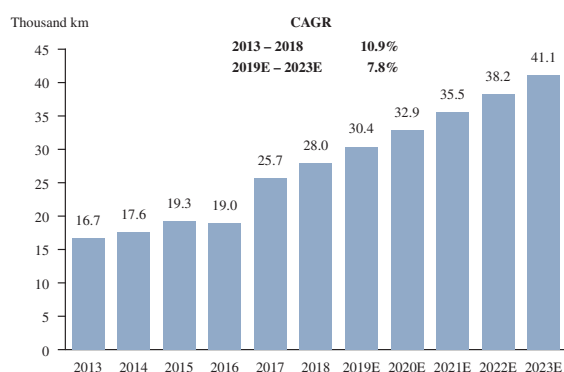
Municipal heating market in Jilin

According to the Frost & Sullivan Report, the total areas of municipal heating in Jilin increased from 428.0 million sq.m. in 2013 to 611.5 million sq.m. in 2018, with a CAGR of 7.4%. Correspondingly, the pipeline length of municipal heating in Jilin increased from 16.7 thousand km in 2013 to 28.0 thousand km in 2018, with a CAGR of 10.9%. The total areas of municipal heating in Jilin are expected to increase to 782.8 million sq.m. in 2023, with a CAGR of 4.9% from 2019 to 2023. The pipeline length of municipal heating in Jilin Province is expected to increase to 41.1 thousand km in 2023, with a CAGR of 7.8% from 2019 to 2023.

**Total Areas of Municipal Heating,
Jilin, 2013-2023E**



**Pipeline Length of Municipal Heating,
Jilin, 2013-2023E**



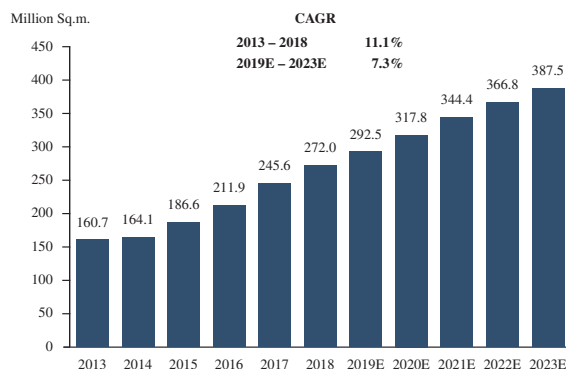
Source: National Bureau of Statistics, Frost & Sullivan

Municipal heating market in Changchun

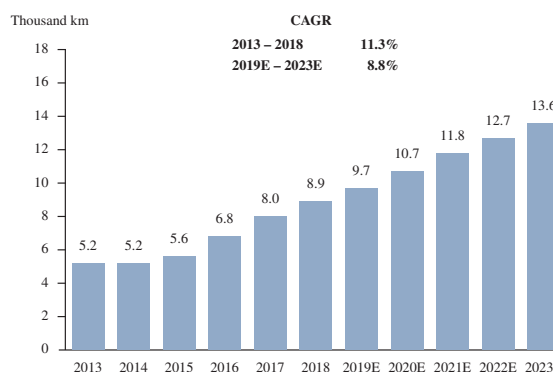
According to the Frost & Sullivan Report, the areas of municipal heating in Changchun accounts for approximately 44.5% of heating areas of Jilin Province in 2018, and the percentage shall rise slightly from 2019 to 2023. It increased from 160.7 million sq.m. in 2013 to 272.0 million sq.m. in 2018, with a CAGR of 11.1%. Correspondingly, the pipeline length of municipal heating in Changchun increased from 5.2 thousand km in 2013 to 8.9 thousand km in 2018, with a CAGR of 11.3%. The municipal heating market in Changchun, which showed a better performance than Jilin Province and most of other areas of Northeast China during last few years, was mainly driven by a higher growth rate of economy and urban population than rest of Jilin Province and Northeast China, and these economic and demographic trends are expected to continue in next few years to support its better market performance. The total areas of municipal heating in Changchun are expected to increase to 387.5 million sq.m. in 2023, with a CAGR of 7.3% from 2019 to 2023, and the pipeline length is expected to increase to 13.6 thousand km in 2023, with a CAGR of 8.8% from 2019 to 2023.

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Total Areas of Municipal Heating, Changchun, 2013-2023E



Pipeline Length of Municipal Heating, Changchun, 2013-2023E



Source: National Bureau of Statistics, Frost & Sullivan

Heat Source and Municipal Heating Price

For the heat service providers, their revenue of heat supply business segment usually consists of (i) provision and distribution of heat and (ii) pipeline connection fee. According to the Price Bureau of Jilin Province, the upper limit of the pipeline connection fee for the new end users of Changchun, which was set in 2003, remained at RMB50 per sq.m. from 2013 to 2017. While in October 2018, Price Bureau of Jilin Province declared to cancel the regulated pipeline construction fee in Jilin Province, and the price shall become market-determined thereafter. The heating price for residential users of Changchun remained at RMB29 per sq.m. until the end of November, 2015, then it was reset to RMB27 per sq.m. after then. For the non-residential users, by the end of 2015, the heating prices for commercial properties and other kinds of property were set separately. They were combined into one price and remained at RMB31 per sq.m. since the heat supply period of 2016-2017.

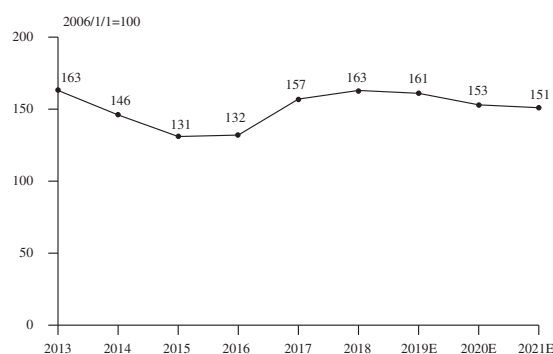
The heating price adjustment of Changchun city normally shall go through the following procedures: (i) Changchun Development and Reform Commission holds the hearing on heating price adjustment to collect the opinions; (ii) after the hearing, it will submit the final hearing report to Changchun Municipal Government; and (iii) according to the general opinion of the hearing, Changchun Municipal Government will make the final plan of the heating price adjustment and announce the decision publicly.

The Price Bureau of Jilin Province set a benchmark rate for the basic ex-factory price of heating, which is RMB27.5/GJ (VAT included), and in some cases, a higher rate may be charged for procured volume that exceeds a certain agreed level. While according to latest version of The Pricing Catalogues of Jilin Province, which was published in March, 2018 and effective since April, 2018, the local municipal governments of Jilin Province shall decide their ex-factory price of heating thereafter.

INDUSTRY OVERVIEW

Coal and natural gas are the major resources for municipal heating in China. According to the Coal Price Index, which is published by the China National Coal Association to measure the price trend of coal in China, the price of coal in China kept decreasing from 2013 to 2015. It remained stable during the first half of 2016 and started to rise since the second half of 2016. By the end of 2018, China Coal Price Index stood at 163. For the next three years ending 2021, the coal price is expected to decline slightly as the coal consumption shall be steady while the production capacity of coal is expected to increase in China. According to a guiding opinion issued by the pricing bureau of Jilin Province in July 2018, when the local weighted average coal price fluctuates by more than 10%, the heating ex-factory price of cogeneration plant and heat rate may be adjusted correspondingly. The prices of natural gas in China are controlled by the government. From 2013 to 2018, the price of non-residential natural gas in Changchun declined slowly and stood at RMB3.0 per cubic meter by the end of 2018.

Coal Price Index, China, Northeast China, Jilin Province and Changchun, 2013-2021E



Source: China National Coal Association, Changchun Development and Reform Commission Frost & Sullivan

Entry Barriers

The entry barriers of municipal heating market include the following:

Pipeline Barrier. In China, heating companies usually own or obtain official authorization for construction of the heating pipelines in a certain region. As the pipelines for centralized heating are usually built underground in the urban regions where roads, buildings and residents are densely located, the construction works will adversely affect city traffic and residents' daily life. Due to limitations on lands and underground spaces, the local governments will make overall plans on construction of underground pipes and usually prohibit other heating companies from entering the region covered by existing heating companies, to avoid unnecessary repeating construction.

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Qualification barrier. Municipal heating is an essential infrastructure for residents' living quality in Northeast, Northwest and North China. Governments issued strict regulations on the qualification of municipal heating companies. The qualification is authorized by related departments of provincial or municipal governments. For example, according to Municipal Heating Regulations in Jilin Province, all entities in Jilin must have sufficient fund that corresponds its scale and employees of various technical titles, like HVAC (Heating Ventilation Air Conditioning) engineers certified professional qualification, to obtain heating licenses for corresponding heating capacities from Jilin municipal Heating Department before they run any heating business.

Technology barrier. The government and industry authorities have set specific technical standards on heating load distribution, water pressure and temperature, etc. to ensure heating network security during design, construction and operation stage. In addition, to increase standards on environmental friendliness and efficiency for heating network, it requires application of advanced technologies in automated monitoring and management of the heating network, and this further increases technological requirements on heating companies. It takes time and endeavors for new entrants to meet those technological requirements and be able to compete with established players.

Capital barrier. The development of municipal heating projects requires massive funds to invest in construction of pipeline system. Initial capital investment on the construction of a typical municipal heating project with heating area of 1.0 million sq.m. usually is from around RMB100 million to RMB200 million. Furthermore, it takes relative long time for the companies to be paid off, increasing the requirement on financial capability.

DEVELOPMENT PROSPECT OF THE MUNICIPAL HEATING INDUSTRY IN CHINA

Municipal Heating Market Growth Drivers

According to the Frost & Sullivan Report, the key growth drivers for municipal heating market in China include the following:

Development of Urbanization in Covered Market. With the continuously increasing urbanization rate in China, Northeast China, Jilin Province and Changchun from 2013 to 2018, the accelerated construction of new residential and industrial areas creates incremental demands for municipal heating service. Furthermore, as both residential and industrial areas are becoming more regionally centralized, municipal centralized heating will be preferred due to its higher efficiency and better economy. In addition to expansion of urban areas, urban development also involves upgrade and retrofit in city centers, which provides better access to centralized heating in the covered areas.

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Replacement of Boilers with Limited Capacity. To increase the heating efficiency and alleviate the air pollution from heating industry, Chinese government is promoting the replacement of small capacity boilers and encouraging the development of centralized municipal heating service. According to the Action Plan for Improving Energy Conservation and Environmental Friendliness of Coal-fired Boilers circulated in 2014, Chinese central government has encouraged the elimination of coal-fired boilers with limited capacity in the region covered by urban heating pipelines. In Jilin, the provincial government issued a plan to enforce the abandonment of all small-scale (i.e. with heating capacity no more than 10 T/h) coal-fired boilers in urban areas by the end of 2017, resulting in the elimination of 6,329 small-scale coal-fired boilers accumulatively, as disclosed in the provincial environment report of 2017. Changchun government started to enforce the abandonment of the coal-fired boilers with higher heating capacity, for example, since 2018, the coal-fired boilers with the capacity no more than 20 T/h have gradually been abandoned in Changchun. Moreover, the provincial government planned to initiate co-generation construction programs for the next 3 years in cities of Changchun, Songyuan, etc. aiming to achieve 2.8 GW newly installed capacity by 2020.

Advances in heating technology. The advances in heating technology, including upgrade of heat carrier, diversification of energy sources, and the application of intelligent control on centralized heating process, are increasing the efficiency and environmental friendliness of heating industry in China. As one of the major heating supply and consumption markets in China, the northeast region is always working on promoting the development of heating technology and upgrade of heat supply network in respect of policies and market demand, thus creating momentum for development of municipal heating market.

Municipal Heating Market Restraints

According to the Frost & Sullivan Report, the restraints for municipal heating market in China include the following:

Increasing environmental requirements on heat production sector. Chinese government is raising the environmental standards on heat production sector. Coal-fired heating generation is still heavily relied upon for municipal heating, and large amount of small coal-fired boilers is regarded as the main source of air pollutants. As such, besides those small-scaled coal-fired boilers are forced to shut down, according to Management Regulations on co-generation (《熱電聯產管理辦法》) published by NDRC, certain coal-fired co-generation plants are required to be equipped with high efficient dust-remover, deNO_x and desulfurization equipment to meet strict emission standards. Such actions will increase operating expenses of the heat production companies.

Limitation on Pricing Regime of Municipal Heating. Heating costs incurred by municipal residents using centralized heating generation are currently charged in accordance with floor areas covered by heating facilities instead of actual usage in the majority of cities in China. Such pricing regime may result in relative low efficiency of energy usage.

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Competition from New Energy Distributed Heating. Due to the advances in technologies and government supports, distributed heating fueled by new energy such as geothermal energy, solar energy, natural gas and air-source energy is currently in the pilot phase and is expected to witness robust growth in the future, providing an alternation for municipal heating in urban areas.

Municipal Heating Market Development Trends

Industry Consolidation. Chinese government is vigorously promoting the transformation towards clean heating, which will significantly increase the costs of heating service. Those small players who cannot afford the transformation may be squeezed out of the market. Additionally, to optimize the urban structure, many municipal governments are promoting the regional concentration of residential and industrial areas by restructuring residential areas and developing industrial parks. In this context, the municipal heating market in China has seen gradual industry consolidation and some large-size SOE with strong capital reserve, advanced technology and good environment protection process will become the major force for industry consolidation.

Clean Heating. Due to the severe air pollution issue in China, the heating market is witnessing the transfer to a heating supply system with co-generation as the main heating source while other clean energy as supplemental sources. Local governments are promoting clean heating including the transfer from coal to electricity and from coal to gas based on the local conditions and lowering the emission of pollutants. Renewable energy sources such as geothermal energy and biomass energy as well as clean heating technologies such as co-generation and residual industrial heat recycle are encouraged by the Chinese government. The improvement of heat production technology and increasing use of clean energy sources will significantly relieve the negative environmental influence caused by heating service. At the same time, the application of clean energy sources relies on technological advances to ensure the stable supply of clean energy and reduce the cost of heat production.

Heat Metering. At present, heating service is usually charged by floor areas and the price is regulated and unified by governments. With the development of centralized heating service and heat metering technology, heating fees based on heating volume are becoming feasible. Heat metering will increase the heating capacity of current heating sources and drive the switch of heating service from even heating to heating by demand. Heating fees based on heating volume can increase the quality of heating service and improve the users' awareness of energy saving.

Smart Heating. Currently, from the perspectives of heat supply and metering, heating service is still of great potential to becoming more efficient. By analyzing the heating data and applying centralized commanding system and intelligent control system, smart heating system can significantly increase the heating efficiency, which shall be promoted and implemented in more residential properties to better meet with citizen's heating demands.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF THE MUNICIPAL HEATING INDUSTRY IN THE PRC

Competitive Landscape of the Municipal Heating Market in China Overall

According to the Frost & Sullivan Report, most market participants in the PRC municipal heating market fall into three categories: specialized heating companies which are usually state-owned or state-controlled and which constitute the foundation of municipal heating system, subsidiaries of power generation groups which have been increasingly participating in the municipal heating market with the development of combined heat and power technology and increasing application of renewable energy sources, and property developers which are establishing their heating services as a natural progress of their vertical integration. The centralized municipal heating markets in the PRC are fragmented as most municipal heating enterprises in the PRC are local companies.

Competitive Landscape of the Municipal Heating Market in Northeast China and Jilin Province

According to the Frost & Sullivan Report, municipal heating market in Northeast China is quite fragmented. Top 5 heating suppliers in Northeast China accounted for only 10.7% of the total heat service area in Northeast China. Our Company was the 4th largest municipal heating supplier by heat service area in Northeast China in 2018.

According to Frost & Sullivan Report, market concentration of municipal heating market area in Jilin Province is relatively higher than that in Northeast China and the PRC. Top 5 heating suppliers accounted for 21.2% of the market by heat service area in Jilin Province in 2018. Our Company was the largest heating supplier by heat service area in Jilin Province in 2018.

Market Share of Top Players in Municipal Heating Market (Total Area), Northeast China, 2018				Market Share of Top Players in Municipal Heating Market (Total Area), Jilin, 2018			
Rank	Company Name	Area (million Sq.m.)	Market Share	Rank	Company Name	Area (million Sq.m.)	Market Share
1	Company A	79.6	3.1%	1	Our Company	38.5	6.3%
2	Company B	67.5	2.6%	2	Company E	27.7	4.5%
3	Company C	54.0	2.1%	3	Company F	24.3	4.0%
4	Our Company	38.5	1.5%	4	Company G	20.7	3.4%
5	Company D	36.1	1.4%	5	Company H	18.1	3.0%
	Others	2,320.3	89.3%		Others	482.2	78.8%
	Total Market Size	2,596.0	100.0%		Total Market Size	611.5	100.0%

Source: Annual reports of the companies, Frost & Sullivan

INDUSTRY OVERVIEW

Compared with its competitors, our Company has the following competitive advantages: (1) leading market position in Jilin Province, (2) cost effective heat procurement, (3) smart heating network system, (4) brand and reputation advantage, and (5) experienced management team.

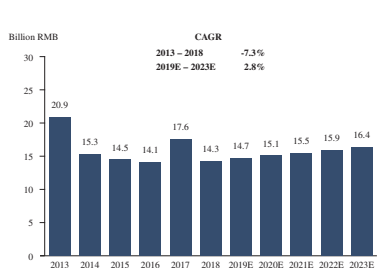
OVERVIEW OF THE MUNICIPAL HEATING FACILITY CONSTRUCTION, MAINTENANCE AND DESIGN SERVICES MARKET IN NORTHEAST CHINA, JILIN AND CHANGCHUN

Municipal Heating Facility Construction, Maintenance and Design Services Market in Northeast China, Jilin and Changchun

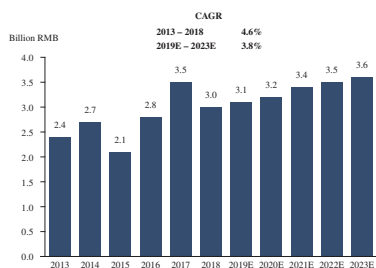
- The total expenditure of municipal heating facility construction, maintenance and design services in Northeast China stood at RMB20.9 billion in 2013 and it decreased to RMB14.3 billion in 2018. However, in line with the development of the downstream municipal heating market, it is expected to show a growing trend from 2019 and increase to RMB16.4 billion by 2023 with a CAGR of 2.8%. This growth is mainly contributed by the expected increasing areas of municipal heating in Northeast China.
- The total expenditure of municipal heating facility construction, maintenance and design services in Jilin Province increased from RMB2.4 billion in 2013 to RMB3.0 billion in 2018. The figure is expected to increase to RMB3.1 billion in 2019 and then reach RMB3.6 billion by 2023, with a CAGR of 3.8%. As the market size is highly sensitive to the annual incremental heating area, the expected lower incremental heating area in Jilin Province from 2019 results in a lower CAGR from 2019 to 2023.
- The market size of the municipal heating facility construction, maintenance and design services in Changchun represented a growing trend during last few years. Its total expenditure was RMB1.0 billion in 2013, and then increased to RMB1.2 billion in 2018, with a CAGR of 3.7%. Like the situation in Jilin Province, the market in Changchun is expected to increase from 2019, and then reach RMB1.4 billion by 2023, with a CAGR of 3.9%.

The charts below show the market size of municipal heating facility construction, maintenance and design services in Northeast China, Jilin and Changchun.

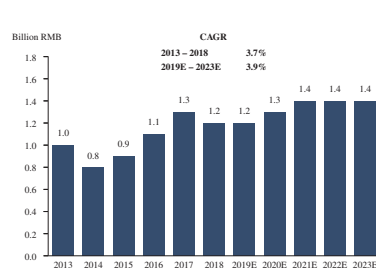
Market Size
(by Total Expenditure),
Northeast China, 2013-2023E



Market Size
(by Total Expenditure),
Jilin, 2013-2023E



Market Size
(by Total Expenditure),
Changchun, 2013-2023E

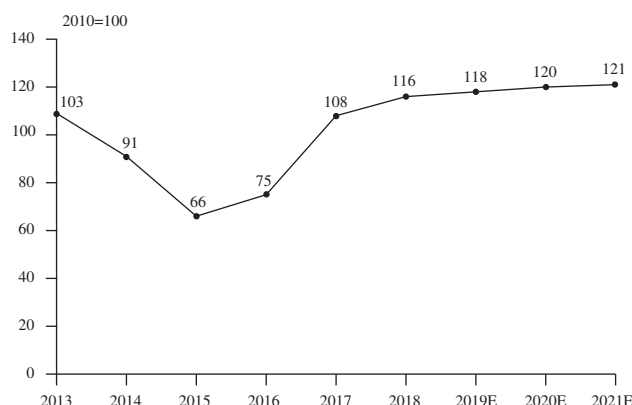


Source: National Bureau of Statistics, Frost & Sullivan

INDUSTRY OVERVIEW

Steel is one of the most important raw materials used in the municipal heating facility construction, maintenance and design services market. The price of steel in China kept declining from 2013 to 2015. China Steel Price Index by NDRC declined to 66 in 2015. As the steel price started to rebound since early 2015, China Steel Price Index increased from 66 in 2015 to 116 in 2018. The price of steel is expected to rise slightly in the next three years as the Chinese government will maintain strict control over the production capacity of the steel industry.

Steel Price Index, China, Northeast China, Jilin Province and Changchun, 2013-2021E



Source: National Development and Reform Commission, Frost & Sullivan

Municipal Heating Facility Construction, Maintenance and Design Services Market Growth Drivers

Development of Municipal Heating Market. The rising urbanization rate in China leads to increasing demand for heating, which drives the development of municipal heating market. Growing municipal heating market is the fundamental driver of the construction, the repair and maintenance of heating facilities business.

Favorable Policy Support. To improve the environment, Chinese government has issued a series of policies and standards to emphasize the necessity of heating supply with clean energy, such as the *Three-year Action Plan for Winning the Blue Sky Defense War* (《打贏藍天保衛戰三年行動計劃》) issued in 2018 by the State Council. The policy calls for eliminating the small coal-fired boilers, speeding up heating pipelines construction and improving the municipal heating infrastructure. Meanwhile, the *National 13th Five-Year Plan for Urban Municipal Infrastructure Construction* (《全國城市市政基礎設施規劃建設“十三五”規劃》) published in 2017 by NDRC and MOHURD proposed to improve the heating quality and the municipal infrastructure. These favorable policies will stimulate the demand for the high-quality heating infrastructure and drive the heating facility construction market.

INDUSTRY OVERVIEW

Diversified Investing and Financing Channels. In order to promote the construction of municipal infrastructure, the government keeps broadening the channels of investment and financing for municipal infrastructure projects and has issued a series of policies for supporting PPP (public-private partnership) projects, which is a cooperative arrangement between two or more companies in public and private sectors, typically concerning infrastructure or public facility areas. Such PPP projects stimulate the social capital to participate in the investment, construction and operation of municipal infrastructure. By satisfying the diversified investing and financing requirements of social capital, PPP model shall further drive the municipal heating facility construction, maintenance and design services.

Growth in Suburban Areas. During the last decades, China's public service facilities in cities have been improved significantly while the public service facilities in suburban areas lag behind that in cities. The gap also exists in the municipal heating field. With greater growth potential, centralized heating market in suburban areas will contribute to the growth of heating construction market.

Municipal Heating Facility Construction, Maintenance and Design Services Market Competitive Landscape

In the municipal heating facility construction, maintenance and design services market of Jilin Province and Changchun, the competitive landscape is relatively concentrated, and there are mainly two types of players competing in this market. One type of players is the municipal heat service provider, which may have a business department or the subsidiaries to participate in this business. In this case, the synergetic effects shall exist between its heat supply segment and the heating facility construction, maintenance and design services segment. The other is the professional municipal engineering companies without the heat supply business background.

REPORT COMMISSIONED BY FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to report on, the municipal heating market in the PRC for the period from 2013 to 2023. The report we commissioned (the “**Frost & Sullivan Report**”) has been prepared by Frost & Sullivan independently. We agreed to pay Frost & Sullivan a fee of RMB750,000 for the preparation of the Frost & Sullivan Report. Founded in 1961 in New York, Frost & Sullivan has over 40 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Frost & Sullivan has been covering the Chinese market from its offices in the PRC since the 1990's. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the municipal heating market and power industry.

INDUSTRY OVERVIEW

The Frost & Sullivan Report includes information on the PRC's municipal heating market and other market and economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the municipal heating market and power industry in the PRC. Primary research includes interviewing industry insiders, competitors, downstream customers and recognized third-party industry associations. Secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the social, economic and political conditions in China and the world currently discussed will remain stable during the forecast period; (ii) government policies on municipal heating industry in China and Jilin Province will remain unchanged during the forecast period; and (iii) the municipal heating industry in China and Jilin Province will be continuously growing driven by development of urbanization, new financing and development models, replacement of small capacity boilers and advances in heating technology.

OVERVIEW

As our operations are located in the PRC, our heat supply business is subject to the relevant PRC laws, regulations and policies. Such regulations cover a wide range of areas including project approval, heat supply, price, environmental protection and safety. In addition to individual regulations for the industry, there are also general regulations we are required to comply with, such as energy conservation, production safety, labor protection and taxation. This section provides a summary of the major PRC laws and regulations relating to the operations of our Group in the PRC. Any violation of these laws and regulations will have a negative impact on our business operations and future development.

HEAT SUPPLY

Historical change in heat supply system

China has once implemented a heat supply welfare system on the basis of the housing welfare system. Starting from late 1990s, municipal housing reform has been gradually carried out and substantially all residences in China's cities and towns have already been owned by urban residents, and the heat supply welfare system has lost foundation.

In July 2003, eight ministries and commissions including the National Development and Reform Commission jointly issued the Guiding Opinions on the Trial Reforms of Heat Supply Regimes of Urban Cities (《關於城鎮供熱體制改革試點工作的指導意見》) which highlighted the ultimate goal and general direction of the heat supply system reform-terminating the welfare type of heat supply and implementing the commercialized and monetary subsidy for heat supply, hence building a market-oriented municipal heat supply operation mechanism. In October 2005, the National Development and Reform Commission and the Ministry of Construction (revoked) issued the “Guiding Opinions on Building a Coal & Heat Price Pass Through Mechanism (《關於建立煤熱價格聯動機制的指導意見》) to provide guiding opinions on the gradual promotion of commercialization and monetization of heat supply, marking the official launch of market reform for China's heat supply system. The “Interim Measures for the Price Control of Municipal Heat Supply (《城市供熱價格管理暫行辦法》)” in 2007 also mentioned that the state allows participation of nonpublic capitals in the investment, construction and operation of heat supply facilities so as to gradually promote the commercialized and monetary subsidy for heat supply.

Furthermore, the state also encourages private capitals to enter the heat supply industry. At the end of 2002, the Ministry of Construction (revoked) issued the Opinions on Accelerating the Marketization Process of the Municipal Utilities Industry (《關於加快市政公用行業市場化進程的意見》) which encourage social funds to participate in the construction of operational municipal public facilities through various forms such as sole proprietorship, joint venture and cooperation, and reasonable return of enterprises through legal operation should be guaranteed. In 2012, the Ministry of Housing and Urban-Rural Development issued the Implementation Opinions on further Encouraging and Guiding Private Capitals to Enter the Municipal Utilities Sector (《進一步鼓勵和引導民間資本進入市政公用事業領域的實施意見》), which clearly

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stated that it is necessary to further break monopoly, introduce market competition mechanism, open up the market for investment, construction and operation of municipal public utilities, encourage private capitals to directly invest in the construction and operation of municipal heat supply and other municipal infrastructure projects through sole proprietorship, joint venture cooperation and asset acquisition etc. In November 2014, the State Council issued the Guiding Opinions on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (《關於創新重點領域投融資機制鼓勵社會投資的指導意見》), which pointed out the active promotion of social capitals to participate in construction and operation of municipal infrastructure, and encouraged social capitals to invest in municipal infrastructure projects such as municipal heat supply through various ways such as franchising, investment subsidies and government procurement services. In December 2014, the Guiding Opinions on Launching Cooperation between Government and Social Capitals (《關於開展政府和社會資本合作的指導意見》) issued by the National Development and Reform Commission further emphasized the cooperation between government and social capitals in public services and infrastructure projects.

As our entities are located in Changchun City, Jilin Province, the PRC, we shall also comply with local regulations of Changchun City. The latest Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), promulgated on 21 September 2018 and implemented by the Standing Committee of Changchun Municipal People's Congress on 1 October 2018, specifically regulates matters about heat supply, such as heat supply planning and construction, heat supply management, heat supply facilities management, emergency protection as well as supervision and inspection and legal responsibilities.

Pricing

Principal PRC laws and regulations applicable to prices of heat supply include the Pricing Law of the People's Republic of China (《中華人民共和國價格法》) and the Interim Measures for the Administration of Municipal Heat Supply Prices (《城市供熱價格管理暫行辦法》). The Notice on Regulating the Price of Heat Supply and Related Issues in the Municipal Area of Changchun City (《關於規範長春市城區供熱價格及有關問題的通知》), issued by the Changchun Municipal Development and Reform Commission and the Changchun Municipal Public Utilities Bureau on 3 September 2013, specifically provided for the standard of charging heat supply to different targets within the urban area of Changchun City. The Reply to Request for Approval of Heat Transmission Fee (《關於對核定供熱管網輸送費請示的批覆》), issued by Changchun Municipal Development and Reform Commission on 20 July 2018, stipulated the standard for charging transmission fees through pipeline network in Changchun City, i.e. heat transmission fees for No. 2 Cogeneration Plant are RMB3.85/GJ, heat transmission fees for (No. 4 Cogeneration Plant) are RMB6.50/GJ, RMB5.00/GJ and RMB4.50/GJ if the pipeline network annual usage reaches 3.0 million GJ, 4.0 million GJ and 5.0 million GJ, respectively.

REGULATORY OVERVIEW

Pursuant to provisions of the Interim Measures for the Price Control of Municipal Heat Supply (《城市供熱價格管理暫行辦法》) implemented on 1 October 2007, price of heat supply shall be formulated by the competent price department under provincial (district, municipal) people's government or authorized municipal or county people's government (hereinafter referred to as the pricing mechanism of heat price). Authorized municipal and county people's governments shall formulate the heat price and specific work shall be undertaken by competent price department thereunder, while the administrative department for heat supply shall assist the competent price department in management of the heat price.

Pursuant to the Notice of Changchun Municipal People's Government on Adjusting the Heat Supply Price in the Urban District of Changchun City (《長春市人民政府關於調整長春市城區供熱價格的通知》) and the Notice on Adjusting the Heat Supply Price of the Service Industry in the Urban District of Changchun City (《關於調整長春市城區服務業供熱價格的通知》), since November 2015, the heat price for residential buildings is RMB27 per sq.m. of the gross floor area. Since the 2016-2017 heat supply period, the heat supply price for commercial housing is RMB31 per sq.m..

Pursuant to the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), promulgated on 21 September 2018 and implemented by the Standing Committee of Changchun Municipal People's Congress on 1 October 2018, heat users may apply to suspend heat supply, and users applying for suspension of heat supply shall pay to the heat supply business enterprise a basic fee for maintaining the heat supply facility. The basic fee for maintaining heat supply facilities shall not exceed 20% of the total heat fees paid based on the heat service area.

Pursuant to the Notice on Regulating the Price of Heat Supply and Related Issues in the Municipal Area of Changchun City (《關於規範長春市城區供熱價格及有關問題的通知》) issued by Changchun Municipal Development and Reform Commission and the Changchun Municipal Public Utilities Bureau on 3 September 2013, fees for public underground parking space are charged at 50% of the gross floor area. If the heating device is installed in the basement of the house and the basement area is within the gross floor area of the house, the heat fee shall be charged based on the gross floor area. If the basement area is not within the gross floor area of the house and the floor height exceeds 2.2 meters, fees shall be charged based on the actual measured plane area. If the floor height does not exceed 2.2 meters, fees shall be charged based on 50% of the actual measured plane area. If heating facilities are not installed, no fees will be charged for the moment. For industrial enterprises and schools, if the floor height exceeds three meters, an additional heat price of 5% will be charged for each 0.3 meter in excess. If the floor height reaches six meters (including 6 meters), the maximum price increase shall not exceed 50%. For special users with a floor height exceeding 6 meters, the price can be negotiated between the heat supply enterprise and the heat user based on the actual heat consumption.

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Please refer to the sections headed “Risk Factors – Risks relating to our Business – We do not have control over the pricing of heat supply (both heat procurement price with cogeneration plants and heat rates charging end-users) and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost” and “Business – Sale of Heat – Pricing” in this prospectus for details of the potential effects and risks relating to the adjustment of heat procurement prices.

Pursuant to the Notice of the Jilin Provincial Price Bureau on the Cancellation of Construction Fees for Centralized Heat Supply Pipeline Networks (《吉林省物價局關於取消集中供熱管網建設費的通知》), effective on 17 October 2018, the charging item for construction fees for centralized heat supply pipeline networks has been canceled effective from 17 October 2018. Upon such cancellation, both parties shall negotiate in a market-oriented manner for structures to be integrated in centralized heat supply pipeline networks.

Enterprise qualification and license

Qualifications of municipal heat service providers

Pursuant to the Regulations on Municipal Heat Supply Management of Jilin Province (《吉林省城市供熱條例》) promulgated on 31 March 2004 and implemented on 1 June 2004, entities engaged in the design and construction of municipal heat supply projects shall possess corresponding qualifications. Municipal heat supply operation implements a licensing system, and establishment of heat business enterprise are subject to review and approval and issuance of Business License (《經營許可證》) by competent heat supply department under the people’s government at county or above level. Currently, we have obtained the Urban Heat Supply Enterprise Operation License (《城鎮供熱經營企業許可證書》) in accordance with the relevant regulations.

Pursuant to the Changchun Municipal Heat Supply Management Measures (《長春市城市供熱管理辦法》) promulgated on 12 October 2007 and subsequently revised and implemented on 25 March 2015 and the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》) promulgated on 21 September 2018 and implemented on 1 October 2018, operation of municipal heat supply implements a licensing system, and establishment of heat operation enterprises in the urban area of local city shall make an application to the competent department of municipal heat supply, and the competent department of municipal heat supply shall review the application within 10 days from the date of receiving the application, and issue the Business License (《經營許可證》) if the conditions are met. During the heat supply period, the average temperature of heat supplied indoor in main rooms (bedrooms and living room) of the resident heat user during the day and the night shall not be lower than 18 degrees Celsius.

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Pursuant to the Notice on Printing and Distributing the ‘Administrative Measures for Heat and Power Cogeneration’ (《關於印發<熱電聯產管理辦法>的通知》) and the Administrative Measures for Heat and Power Cogeneration (《熱電聯產管理辦法》) issued and implemented on 22 March 2016 and the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》) promulgated on 21 September 2018 and implemented on 1 October 2018, heat supply business enterprises using cogeneration plants as heat source shall construct ancillary peak-shaving boilers in accordance with the relevant regulations and maintain a back-up heating capacity of 25%-40% of the maximum heat load in the heating zone. We are currently equipped with peak-shaving boilers leased from third parties. In case of violation of such rules, a fine of RMB30,000 to RMB50,000 may be imposed. Please refer to the section headed “Business – Heat Supply – Our Business Segments – Heat Procurement from Cogeneration Plants” in this prospectus for details of the peak-shaving boilers leasing agreement we entered into with an Independent Third Party in compliance with the new regulations.

CONSTRUCTION MAINTENANCE AND DESIGN SERVICES

Pricing

In the Notice in relation to the promulgation of Jilin Province Construction Project Price Determination Estimate Norm (《關於頒發吉林省建設工程計價定額的通知》) promulgated on 30 August 2013 and Price Determination Estimate Norm for Installation Works in Jilin Province (《吉林省安裝工程計價定額》) implemented on 1 January 2014, the Jilin Provincial Department of Housing and Urban-Rural Development stipulates the standard for calculating project costs. The Ministry of Housing and Urban-Rural Development of Jilin Province shall be responsible for the management of the price determination estimate norm of construction projects in Jilin Province. The reasonableness of the tender price is ensured by formulating the bills of quantities and preparing and controlling the tender price.

Pursuant to the Notice in relation to Metrological Verification Charging Standard Adjustments (《關於調整計量檢定收費標準的通知》) and Jilin Province Metrological Verification Charging Standards (《吉林省計量檢定收費標準》) formulated and promulgated by the Jilin Provincial Price Bureau and the Jilin Provincial Department of Finance on 18 August 2003 and Inspection and Calibration Fees and Price List of Jilin Institute of Metrology (《吉林省計量科學研究院檢驗校準收費標準及價格清單》) made by the Jilin Institute of Metrology, measuring instruments are divided into seven categories, namely thermal engineering, mechanics, electricity, flow, quality, medicalization and geometric quantity, and charges and prices for the verification and calibration of various kinds of measuring instruments are specified taking into overall consideration the five aspects of the professional category, grade, unit, measurement range and cycle of measuring instruments.

REGULATORY OVERVIEW

Qualifications and Licenses

Project design qualification

According to the Administrative Regulations on Management of the Survey and Design Qualifications of Construction Engineering (《建設工程勘察設計資質管理規定》) promulgated on 26 June 2007 and implemented on 1 September 2007, and subsequently revised on 4 May 2015, 13 September 2016 and 13 December 2018, enterprises engaged in construction engineering survey and design activities in China should obtain the qualification certificate for survey and design of construction engineering, and may engage in construction engineering survey and design activities within the scope permitted by the qualification.

Engineering design qualifications are classified into the engineering design comprehensive qualification, engineering design industry qualification, engineering design professional qualification and engineering design special qualification. Only Grade A is set for the engineering design comprehensive qualification. Grade A and Grade B are set for the engineering design industry qualification, engineering design professional qualification and engineering design special qualification. According to the nature and technical characteristics of projects, Grade C can be set for individual industry, professional and special qualifications, and Grade D can be set for construction engineering professional qualification. Enterprises that have obtained engineering design comprehensive qualification can undertake construction engineering design business of all industries and all levels. Enterprises that have obtained engineering design industry qualification can undertake corresponding level of engineering design business and corresponding profession, special (except for those that require qualification of design and construction integration) engineering design business of same level within the scope of own industry. Enterprises that have obtained engineering design professional qualification can undertake professional engineering design business of the corresponding level in own profession and corresponding special engineering design business of same level (except for those which require design and construction integration). Enterprises that have obtained engineering design special qualification can undertake special engineering design business of the corresponding level.

According to the Regulations on the Safety Supervision of Special Equipment (《特種設備安全監察條例》) promulgated on 11 March 2003 and implemented on 1 June 2003, and subsequently revised on 24 January 2009 and implemented on 1 May 2009, the installation, modification and maintenance of boilers, pressure vessels, cranes, passenger cableways, and large entertainment facilities, and the modification and maintenance of in-plant (in-factory) special motor vehicles must be carried out by entities that have obtained licenses. The regulations also stipulate the corresponding qualification requirements for engagement in the pressure vessel design industry and the requirements for technical staffing, location and equipment.

We have obtained the Engineering Design Qualification Certificate (《工程設計資質證書》).

REGULATORY OVERVIEW

Qualifications for enterprises in the construction industry

According to the Administrative Provisions on the Qualifications of Construction Enterprises (《建築業企業資質管理規定》) promulgated on 22 January 2015 and implemented on 1 March 2015, and subsequently amended on 13 September 2016 and 13 December 2018, Grade 2 qualification of the construction general contracting qualification series shall be licensed by the MOHURD authority under the people's government of the province, autonomous region or municipality where the enterprise has completed its registration for industry and commerce, Grade 3 qualification for general contracting for construction shall be licensed by the MOHURD authority under the people's government of the district where the enterprise has completed its registration for industry and commerce, the certificate of qualification shall have a valid period of 5 years.

Qualifications for construction general contracting and specialty general contracting

According to the Administrative Provisions on the of Qualifications of Construction Enterprises (《建築業企業資質管理規定》) promulgated on 22 January 2015 and implemented on 1 March 2015, and subsequently amended on 13 September 2016 and 13 December 2018, qualifications of enterprises in the construction industry are divided into three sequences, namely, the qualification for general contracting for construction, that for professional contracting and that for construction labor services. The qualifications for general contracting for construction and professional contracting are classified into several types of qualification categories according to different project properties and technical characteristics, the different types of qualification categories are further divided into certain qualification grades according to stipulated conditions.

Enterprises which have obtained the qualification for general contracting for construction may undertake construction general contracting projects. A construction general contracting enterprise may conduct by itself all the construction works of various specialty projects within the construction general contracting project undertaken by it, or it may sub-contract the specialty project or labor service to specialty contracting enterprise or labor sub-contracting enterprise with the corresponding qualifications in accordance with laws and regulations.

Enterprises which have obtained the qualification for professional contracting for construction may undertake specialty projects sub-contracted by construction general contracting enterprises and specialty projects sub-contracted by construction entities in accordance with the relevant laws and regulations. A specialty contracting enterprise may conduct by itself all the construction works of the specialty project undertaken by it, or it may sub-contract labor service to those labor sub-contracting enterprises with the corresponding qualifications in accordance with laws and regulations.

Enterprises which have obtained the qualification for construction labor services may undertake labor services sub-contracted by construction general contracting enterprises or specialty contracting enterprises.

REGULATORY OVERVIEW

We have obtained the Construction Industry Enterprise Qualification Certificate (《建築業企業資質證書》).

General project contracting qualifications

According to the provisions of the Guiding Opinions of the Ministry of Construction on Cultivating and Developing General Project Contracting Enterprises and Construction Project Management Enterprises (《建設部關於培育發展工程總承包和工程項目管理企業的指導意見》) promulgated and implemented on 13 February 2003, engineering companies with integrated functions of design, procurement and construction (including construction management), may provide general project contracting services to the extent permitted by their respective qualification for survey design or general contracting. Survey design and construction enterprise consortiums to undertake general project contracting.

We have obtained the Construction Industry Enterprise Qualification Certificate (《建築業企業資質證書》).

Quality management of construction projects

According to the provisions of the Administrative Regulations on the Quality Management of Construction Engineering (《建設工程質量管理條例》) promulgated and implemented on 30 January 2000 and subsequently amended on 7 October 2017, the owners of construction engineering, survey contractors, design contractors, construction contractors and project supervision contractors shall be responsible for the quality of such construction engineering. All activities relating to construction engineering, fundamental construction procedures shall be strictly applied and the steps of surveying first, then designing, and finally constructing shall be observed. After receiving a project completion report, a construction project owner shall organize the design, construction, and project supervision contractors concerned and other relevant contractors to conduct completion-based check and acceptance.

According to the provisions of the Administrative Measures for the Quality Management of the Survey of Construction Engineering (《建設工程勘察質量管理辦法》) promulgated on 4 December 2002 and implemented on 1 February 2003, and subsequently amended on 22 November 2007, an engineering surveying enterprise shall conduct surveying in accordance with the relevant laws and regulations on the quality of construction projects, mandatory standards for engineering construction and the relevant surveying contracts, and shall be responsible for the quality of surveying.

Special equipment design license

According to the Regulations on the Safety Supervision over Special Equipment (《特種設備安全監察條例》) promulgated on 11 March 2003 and implemented on 1 June 2003 and subsequently revised on 1 May 2009, an entity designing pressure vessels may not undertake pressure vessel designing until it is licensed by the department of safety supervision over special equipment under the State Council.

REGULATORY OVERVIEW

We have obtained the Design License of Special Equipment (Pressure Pipeline) (《特種設備設計許可證(壓力管道)》).

License for installation, alteration & maintenance of special equipment

According to the Boiler Installation and Alteration Enterprises Supervision Administration Regulation (《鍋爐安裝改造單位監督管理規則》) (TSGG3001-2004) promulgated on 28 June 2004 and implemented on 28 July 2004, all entities engaged in the installation and alteration of boilers within the scope stipulated in Regulations on Safety Supervision over Special Equipment (《特種設備安全監察條例》) and pipelines within the scope of boilers in China should obtain the License for Installation, Alteration and Maintenance of Special Equipment (《特種設備安裝改造維修許可證》) issued by the General Administration of Quality Supervision, Inspection and Quarantine, and can only engage in installation and alteration of boiler within the scope listed in the license. The acceptance and approval of the “License for Installation, Alteration and Maintenance of Special Equipment (《特種設備安裝改造維修許可證》)” shall be undertaken by the quality and technical supervision department of the provinces, autonomous regions or municipalities directly under the Central Government of where the entities of boiler installation and alteration is located.

According to the Pressure Pipe Installation Licensing Regulation (《壓力管道安裝許可規則》) promulgated and implemented on 8 May 2009, all entities engaged in the installation and alteration of pipelines within the scope stipulated in the Regulations on Safety Supervision over Special Equipment (《特種設備安全監察條例》) shall obtain the License for Installation, Alteration and Maintenance of Special Equipment (《特種設備安裝改造維修許可證》) issued by the State Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) and can only engage in pipeline installation and alteration within the scope listed in the license. The acceptance and approval of the License for Installation, Alteration and Maintenance of Special Equipment (《特種設備安裝改造維修許可證》) shall be undertaken by the quality and technical supervision department of the provinces, autonomous regions or municipalities directly under the Central Government of where the entities for pressure pipeline installation and alteration are located.

We have obtained the License for Installation, Alteration and Maintenance of Special Equipment (特種設備安裝改造維修許可證).

Work safety license

According to Regulation on Work Safety Licenses (《安全生產許可證條例》) promulgated and implemented on 13 January 2004 and subsequently revised on 18 July 2013, 28 January 2014 and 29 July 2014, the State applies a work safety licensing system to enterprises engaged in construction. Before starting production, a construction enterprise should apply for the work safety license to the department in charge of the issuance and administration of work safety licenses. No construction enterprises may engage in production activities without work safety licenses.

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We have obtained the Licence for Work Safety (《安全生產許可證》).

Standards for measurement and examination

According to the Measures for Examination of Measurement Standards (《計量標準考核辦法》) promulgated on 14 January 2005 and implemented on 1 July 2005, and subsequently amended on 6 March 2018 and 21 December 2018, examination shall be made on public standards of measurement and the highest grade of standards of measurement of any department, enterprise and public institution. General Administration of Quality Supervision, Inspection and Quarantine of People's Republic of China (國家質量監督檢驗檢疫總局) (hereinafter referred to as the GAQSIQ) shall uniformly supervise over and administer the work for the examination of standards of measurement all over the country, while quality and technical supervision departments at the provincial level shall be responsible for the supervision over and administration of the work for the examination of standards of measurement within their respective administrative regions. The specimen for measurement standard examination certificates and result notice of measurement standard examination as well as the measurement standard examination specifications shall be uniformly formulated by the GAQSIQ. The measurement standard examination certificate is valid for 4 years.

We have obtained the Certificate for Examination of Measurement Standard (計量標準考核證書).

OTHER REGULATIONS

Energy saving and environmental protection

Principal environmental laws and regulations applicable to the construction and operation of our heat supply industry include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the "Law of the People's Republic of China on Promotion of Cleaner Production (《中華人民共和國清潔生產促進法》) and the "Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》). According to the Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) which implemented on 1 September 2003 and subsequently amended on 2 July 2016 and 29 December 2018, if the environmental impact assessment document of a construction project has not been submitted for review in accordance with the law or approved upon review by the approval authority, the approving department of the project shall not approve the construction, and the construction entity shall not commence construction of the project.

Specific provisions for saving energy in the heat supply industry: The Decision of the State Council on Enhancement of Energy Saving Work (《國務院關於加強節能工作的決定》), which was promulgated and implemented on 6 August 2006, proposes to promote the reform of municipal heating system and change the heat subsidy from "implicit subsidy" to "explicit subsidy", strengthen measurement of heat supply, promote the charging system by

REGULATORY OVERVIEW

measurement according to heat quantity, improve the price formation mechanism of heat supply, study and formulate the charge policy based on heat quantity in heat supply of buildings, and cultivate a heat supply market that is conducive to energy conservation. The Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》), promulgated on 1 November 1997, implemented on 1 January 1998 and subsequently revised on 28 October 2007, 2 July 2016, and 26 October 2018, made further stipulation on energy saving management, that is, the State shall take measures to implement, step by step, the system of household-based heating metering and usage-based heating fees to buildings with central heating. In the construction of new buildings or the energy conservation retrofits of existing buildings, heating metering devices, indoor temperature controls and heating supply control devices shall be installed as required.

Since then, the use of charge by heat measurement and energy conservation of buildings have become important contents of energy conservation for the heat supply industry. In this regard, the Implementation Opinions on Promoting the Heat Supply Measurement and Energy-saving Renovation of Existing Residential Buildings in Northern Heating Areas (《關於推進北方採暖地區既有居住建築供熱計量及節能改造工作的實施意見》) promulgated in May 2008 and the Technical Guidelines for Heat Supply Measurement and Energy Saving Renovation of existing residences in Northern heating areas (《北方採暖地區既有居住建築供熱計量及節能改造技術導則》) issued by the Ministry of Housing and Urban-Rural Development in July of the same year also proposes the heat supply measurement and the energy conservation alteration of existing residential buildings in the northern heat service area, and provide specific technical guidance for this purpose. In addition, the Regulations on Energy Conservation of Civil Buildings (《民用建築節能條例》) promulgated by the State Council in August 2008 and the Notice on Further Deepening the Work of Heat Supply Measurement and Energy-conservation Alteration of Existing Residential Buildings in Northern Heat Service Areas (《關於進一步深入開展北方採暖地區既有居住建築供熱計量及節能改造工作的通知》) issued by the Ministry of Finance and the Ministry of Housing and Urban-Rural Development in January 2011, the 12th Five-Year Plan for Energy Conservation of Buildings (《“十二五”建築節能專項規劃》) by the Ministry of Housing and Urban-Rural Development in May 2012, the Action Plan for Prevention of Air Pollution (《大氣污染防治行動計劃》) by the State Council in September 2013, and the 2014-2015 Action Plan for Energy Conservation and Emission Reduction and Low Carbon Development (《2014-2015年節能減排低碳發展行動方案》) by the Office of the State Council have made provisions for improving the energy utilization efficiency of civil buildings, promoting the application of new building materials, increasing the supply of clean energy, and accelerating the construction of energy conservation and emission reduction projects.

Meanwhile, energy-saving alteration shall also be carried out for boilers used by heat supply companies. The Ministry of Environmental Protection, the NDRC and the Ministry of Finance jointly issued the Twelfth Five-Year Plan for Prevention and Control of Air Pollution in Key Areas (《重點區域大氣污染防治“十二五”規劃》) in October 2012, which emphasize on increased heat and power cogeneration, elimination of scattered small coal-fired boilers, development of central heat supply and propulsion of heat supply measurement reforms to promote energy conservation and emission reduction. In September 2013, the State Council

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issued the Action Plan for Prevention and Control of Air Pollution (《大氣污染防治行動計劃》), which proposed comprehensive rectification of small coal-fired boilers and accelerate the construction of centralized heat supply projects. The Action Plan for Coal-fired Power Energy Saving and Emission Reduction Upgrade and Reconstruction (2014-2020) (《煤電節能減排升級與改造行動計劃(2014-2020年)》) jointly issued by the National Development and Reform Commission, the Ministry of Environmental Protection and the National Energy Administration in September 2014, and the Implementation Plan of comprehensive enhancement project for energy-saving and environmental protection of coal-fired boilers (《燃煤鍋爐節能環保綜合提升工程實施方案》) issued by the National Development and Reform Commission, the Ministry of Environmental Protection etc. in October the same year, proposed the energy-saving alteration of heat supply units, the replacement and elimination of the dispersed small coal-fired boilers, and the implementation of municipal centralized heat supply. The Action Plan for Efficient Use of Coal (2015-2020) (《煤炭清潔高效利用行動計劃(2015-2020年)》) issued by the National Energy Administration in April 2015 proposed the implementation of a coal-fired boiler upgrading project to promote the application of high-efficiency, energy-saving and environment-friendly boilers.

Furthermore, the Notice relating to Release of Two National Pollutant Emission Standards, namely the Emission standards for industrial enterprise noise at boundary (<工業企業廠界環境噪聲排放標準>) and the ‘Emission standards for environment noise in social life (<社會生活環境噪聲排放標準>) implemented by the Ministry of Environmental Protection (revoked) on 1 October 2008 clearly stipulate the emission standards for industrial enterprises noise at boundary to protect and improve the living environment.

Safety and labor protection

The Work Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》), which came into effect in 1 November 2002, subsequently revised in August and became effective in December 2014, is the principal law for the work safety supervision and management and labor protection of heat supply enterprises.

For boilers used by heat supply enterprises, they are special equipment with relatively high risks for personal and property safety according to the Law of the People’s Republic of China on the Safety of Special Equipment (《中華人民共和國特種設備安全法》) which came into effect in 2014 and the Catalogue of Special Equipment (《特種設備目錄》) issued by General Administration of Quality Supervision, Inspection and Quarantine of People’s Republic of China (國家質量監督檢驗檢疫總局) in October 2014. Entities that use boilers shall abide by the above-mentioned laws and the “Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) promulgated by the State Council and the “Opinions of the Special Equipment Bureau under the General Administration of Quality Supervision, Inspection and Quarantine relating to issues about pressure equipment in the newly revised Catalogue of Special Equipment (《質檢總局特種設備局關於新修訂的<特種設備目錄>中承壓設備有關問題的意見》).

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Major PRC labor laws and regulations applicable to our heat supply industry include the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Implementation Regulations on the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》), the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) and the Administrative Regulations on Housing Provident Fund (《住房公積金管理條例》).

Tendering and bidding

Under the Tendering and Bidding Law of the PRC (《中華人民共和國招標投標法》) promulgated and implemented in January 2000 and subsequently amended in December 2017, bidding process is mandatory within China with respect to projects such as large infrastructure and public utilities that concern public interests and security which, jointly with the Implementation Regulations on Tendering and Bidding Law of the PRC (《中華人民共和國招標投標法實施條例》) promulgated by the State Council on November 2011 and subsequently amended in 2017 and 2019, provide specific requirements on issues relating to Tendering and Bidding.

The Implementation Opinions on Further Encouraging and Guiding Private Capitals to Enter the Public Utilities Sector (《進一步鼓勵和引導民間資本進入市政公用事業領域的實施意見》) also emphasizes on equal treatment to private capitals in the bidding and bid evaluation process, selection of franchisees in strict accordance with the bidding procedures, and creation of a level playing field for private capitals.

Taxation and fees

Corporate income tax

Domestic enterprises in China are taxpayers of corporate income tax, and are subject to corporate income tax pursuant to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》). Meanwhile, according to the provisions of this Law and the "Implementation Regulations on the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), for the amount of investment that an entity used in purchase of special equipment for environmental protection, energy conservation, water conservation and work safety, tax credit may be implemented by the entity with a certain percentage.

Value-added tax

According to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council in 2017 and the Extension of Notice relating to Preferential Policies for Value-added Tax, Real Estate Tax and Urban Land Use Tax for Heat Supply Enterprises (《關於延續供熱企業增值稅、房產稅、城鎮土地使用稅優惠政策的通知》) released by the Ministry of Finance and the State Administration of

REGULATORY OVERVIEW

Taxation in 2019, value-added tax, income from heating fees charged to individual residents for heat supply enterprises in “Three North” regions (including Jilin Province) are exempt from value-added tax. The National Development and Reform Commission and the Ministry of Finance issued in 2016 the Opinions on Further Encouraging and Guiding Private Capitals to Enter into Municipal Water Supply, Gas, Heat Supply, Sewage and Waste Treatment Industry (《關於進一步鼓勵和引導民間資本進入城市供水、燃氣、供熱、污水和垃圾處理行業的意見》) which also emphasized on the continuous implementation of preferential policies for tax reduction and exemption for heat supply enterprises.

Urban maintenance and construction tax

Pursuant to the “Provisional Regulations on Urban Maintenance and Construction Tax of the PRC (《中華人民共和國城市維護建設稅暫行條例》)” promulgated by the State Council in 1985 and revised in January 2011, all entities and individuals that pay consumption tax, value-added tax and business tax are taxpayers of urban maintenance and construction tax (referred to as taxpayer below), and shall pay the urban maintenance and construction tax in accordance with the provisions of these regulations.

Education surcharge

Pursuant to the Interim Provisions on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》) promulgated by the State Council in April 1986 and amended in June 1990, August 2005 and January 2011, in order to accelerate the development of the local education, and expand local education funding sources, entities and individuals obliged to pay consumption tax, value-added tax and business tax shall pay educational surcharges under these provisions, except for entities paying additional charges for rural education under the Notice of the State Council on Raising Funds for Running Schools in Rural Areas (Guo Fa [1984] Circular No. 174) (《國務院關於籌措農村學校辦學經費的通知》(國發[1984]174號文)).

HISTORY, DEVELOPMENT AND REORGANIZATION

OUR CORPORATE HISTORY

Our history can be traced back to April 1998 when our Controlling Shareholder, Changchun Heating Group (長春市熱力(集團)有限責任公司), was established in the PRC, for provision of heat supply in Changchun, Jilin Province. Changchun Heating Group is wholly-owned by SASAC Changchun.

To provide more value-added services, Changchun Heating Group expanded its scope of services to: (i) design services for heat supply by the establishment of Heating Engineering Design in 2007; (ii) construction and installation services for heat supply by the establishment of Changchun Runfeng in 2012; (iii) heating facilities repairs and maintenance services by the establishment of Changre Maintenance in 2016; (iv) pipeline installation and repair, and heat transmission services by the establishment of Changre Pipelines in 2017; and (v) electrical instrument installation and maintenance services by the establishment of Changre Electrical Apparatus in 2017. In 2008, Changchun Heating Group acquired 50% equity interests in FAW Sihuan for the purpose of forming a 50:50 joint venture arrangement with Changchun FAWSN, an Independent Third Party, to conduct heat supply business.

For Listing purpose, our Company was established as a wholly-owned subsidiary of our Controlling Shareholder in the PRC on 23 October 2017 to act as our proposed listing vehicle. To rationalize our corporate structure, we undertook Reorganization whereby our Controlling Shareholder injected (i) all of its principal assets in relation to the Core Operations; (ii) equity interests in five subsidiaries; and (iii) equity interests in a jointly-controlled entity to our Company pursuant to the Transfer Agreements to transfer state-owned assets at nil consideration (國有產權無償劃轉協議). On 26 April 2018, a new shareholder, Changchun SCIO Group, which is also wholly-owned by SASAC Changchun, injected capital of RMB28 million into our Company. Immediately after which, our Company was owned as to 93% by Changchun Heating Group and 7% by Changchun SCIO Group. On 30 May 2018, our Company was converted into a joint stock limited company. For details, please refer to the paragraph headed “– Reorganization” in this section.

OUR BUSINESS MILESTONES

The table below sets out the key milestones in the founding and development of our business:

Year	Milestones
April 2001	First accredited with the ISO9001:2000 quality management system
October 2006	Constructed pipelines network to connect heat source from No. 2 Cogeneration Plant with our heat service areas

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Year	Milestones
September 2009	Constructed pipelines network to connect heat source from No. 4 Cogeneration Plant with our heat service areas
2016-2017	Implemented the smart heating network system to improve precision and stability in heat supply
June 2017	Constructed pipelines network to connect two heat sources, namely No. 2 and No. 4 Cogeneration Plants, for the purpose of integrating two different heat sources to integrate our heat distribution network
October 2017	Constructed pipelines network to connect heat source from No. 5 Cogeneration Plant with our heat service areas, and interconnected this new heat source with the existing heat sources (i.e. No. 2 and No. 4 Cogeneration Plants), achieving further integration of three heat sources (No. 2, No. 4 and No. 5 Cogeneration Plants) providing an important security for our continuous heat supply
April 2018	Completely ceased our boiler-generated heat production upon the expiration of the heat supply period and replaced with more stable, economic and environmentally-friendly heat source generated by cogeneration plants

OUR COMPANY

Establishment of Our Company

Our Company is a heat service provider in Jilin Province with heat supply being our core business.

Our Company was established in the PRC as a limited liability company on 23 October 2017 under the name of Changre New Energy Co., Ltd.* (吉林省長熱新能源有限公司) with an initial registered capital of RMB50,000,000. Our Company was subsequently re-named as Jilin Province Chuncheng Heating Limited Liability Company* (吉林省春城熱力有限責任公司) on 30 March 2018. Our Company was initially wholly-owned by Changchun Heating Group.

On 26 April 2018, the registered capital of our Company increased from RMB50,000,000 to RMB53,763,400, after the capital injection made by Changchun SCIO Group. For details, please refer to the paragraph headed “– Reorganization – 3. Introduction of new shareholder as pre-IPO investor and capital injection” in this section. Immediately after the capital injection, our Company was owned as to 93% by Changchun Heating Group and 7% by Changchun SCIO Group.

HISTORY, DEVELOPMENT AND REORGANIZATION

On 30 May 2018, our Company was converted to a joint stock limited company and renamed as Jilin Province Chungcheng Heating Company Limited* (吉林省春城熱力股份有限公司). For details, please refer to the paragraph headed “– Reorganization – 4. Conversion into a joint stock limited company and share restructuring” in this section.

Our Subsidiaries

As of the Latest Practicable Date, our Company had six wholly-owned subsidiaries with details of our subsidiaries set out below:

1. *Changchun Runfeng* (長春市潤鋒建築安裝工程有限責任公司)

Changchun Runfeng is principally engaged in heating facilities construction, pipeline installation, boiler installation, heat exchange station installation, repair and maintenance for heating facilities and construction management.

Changchun Runfeng was established by Changchun Heating Group under the laws of the PRC as a limited liability company on 10 October 2012, with an initial registered capital of RMB10,000,000. Its registered capital was increased to RMB20,000,000 and RMB40,000,000 on 18 June 2014 and 12 November 2015, respectively.

From 1 January 2018, as part of the Reorganization, the 100% equity interests in Changchun Runfeng was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. On 12 April 2018, SASAC Changchun issued the “Approval relating to the issues on the partial transfer of assets of Changchun Heating Power (Group) Company Limited to Jilin Province Chungcheng Heating Limited Liability Company at nil consideration” (《長春市國資委關於同意長春市熱力(集團)有限責任公司部分資產及股權無償劃轉至吉林省春城熱力有限責任公司的批覆》) (the “**Approval**”) and confirmed the cut-off date of the transfer at nil consideration was 31 December 2017. Changchun Runfeng became directly and wholly owned by our Company after the Reorganization. Please refer to the paragraph headed “– Reorganization – 2. Transfer of Equity Interest in the Entities” in this section for details.

2. *Changre Maintenance* (吉林省長熱維修實業有限公司)

Changre Maintenance is primarily engaged in the heating facilities cleaning, installation, repair and maintenance, as well as replacement for heat service providers and end-users.

Changre Maintenance was established by Changchun Heating Group under the laws of the PRC as a limited liability company on 9 August 2016, with a registered capital of RMB10,000,000.

From 1 January 2018, as part of the Reorganization, the 100% equity interests in Changre Maintenance was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. On 12 April 2018, SASAC Changchun

HISTORY, DEVELOPMENT AND REORGANIZATION

issued the Approval and confirmed the cut-off date of the transfer at nil consideration was 31 December 2017. Changre Maintenance became directly and wholly owned by our Company after the Reorganization. For details, please refer to the paragraph headed “– Transfer of Equity Interest in the Entities” in this section.

3. Heating Engineering Design (吉林省熱力工程設計研究有限責任公司)

Heating Engineering Design is primarily engaged in heat engineering designs, as well as heat supply-related consultancy and technical services for our customers in various sectors.

Heating Engineering Design, formerly known as Changchun Heating Engineering Design Co., Ltd. (長春市熱力(集團)工程設計有限公司), was established by Changchun Heating Group under the laws of the PRC as a limited liability company on 22 June 2007, with an initial registered capital of RMB2,000,000. Its registered capital was further increased to RMB5,000,000 on 30 August 2016.

From 1 January 2018, as part of the Reorganization, the 100% equity interests in Heating Engineering Design was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. On 12 April 2018, SASAC Changchun issued the Approval and confirmed the cut-off date of the transfer at nil consideration was 31 December 2017. Heating Engineering Design became directly and wholly owned by our Company after the Reorganization. For details, please refer to the paragraph headed “– Transfer of Equity Interest in the Entities” in this section.

4. Changre Pipelines (吉林省長熱管網輸送有限公司)

Changre Pipelines is primarily engaged in the installation, inspection and maintenance of pipeline networks, procurement of heat source, the management of heating fees collection and the management of transmission of heat services.

Changre Pipelines was established by Changchun Heating Group under the laws of the PRC as a limited liability company on 15 September 2017, with a registered capital of RMB50,000,000.

From 1 January 2018, as part of the Reorganization, the 100% equity interests in Changre Pipelines was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. On 12 April 2018, SASAC Changchun issued the Approval and confirmed the cut-off date of the transfer at nil consideration was 31 December 2017. Changre Pipelines became directly and wholly owned by our Company after the Reorganization. For details, please refer to the paragraph headed “– Transfer of Equity Interest in the Entities” in this section.

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5. *Changre Electrical Apparatus* (吉林省長熱電氣儀錶有限公司)

Changre Electrical Apparatus is primarily engaged in the provision of instrument testing, maintenance and repair of instruments such as gauges, meters and variable-frequency drives.

Changre Electrical Apparatus was established by Changchun Heating Group under the laws of the PRC as a limited liability company on 24 October 2017, with a registered capital of RMB4,000,000.

From 1 January 2018, as part of the Reorganization, the 100% equity interests in Changre Electrical Apparatus was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. On 12 April 2018, SASAC Changchun issued the Approval and confirmed the cut-off date of the transfer at nil consideration was 31 December 2017. Changre Electrical Apparatus became directly and wholly owned by our Company after the Reorganization. For details, please refer to the paragraph headed “– Transfer of Equity Interest in the Entities” in this section.

6. *Biomass Power* (吉林省春城生物質能源有限公司)

Biomass Power was established by our Company under the laws of the PRC as a limited liability company on 10 December 2018, with a registered capital of RMB20,000,000. Biomass Power is a direct and wholly-owned subsidiary of our Company. As of the Latest Practicable Date, Biomass Power has yet to commence operations.

Our jointly controlled entity

FAW Sihuan (長春一汽四環動能有限公司)

FAW Sihuan is primarily engaged in heating production and supply, provision of hot water, construction of heating pipelines and maintenance of heating facilities.

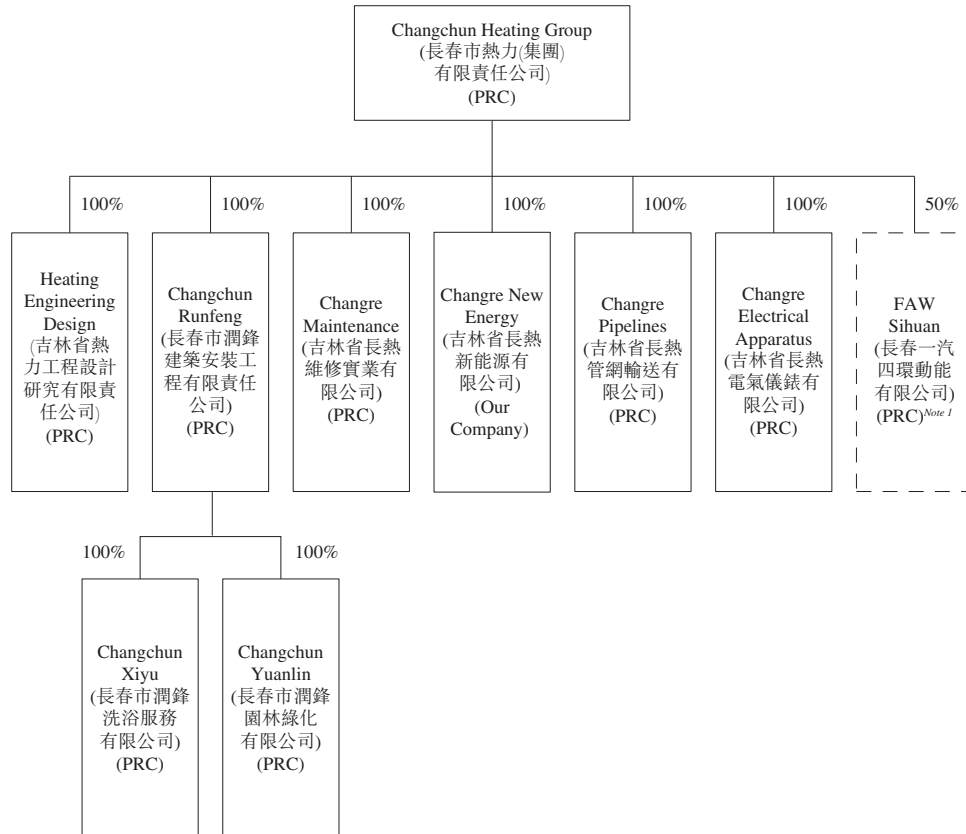
FAW Sihuan was established under the laws of the PRC by Changchun Heating Group and Changchun FAWSN on a 50:50 basis, as a limited liability company on 17 October 2008, with a registered capital of RMB20,000,000.

From 1 January 2018, as part of the Reorganization, the 50% equity interests in FAW Sihuan was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. On 12 April 2018, SASAC Changchun issued the Approval and confirmed the cut-off date of the transfer at nil consideration was 31 December 2017. FAW Sihuan became directly owned as to 50% by our Company after the Reorganization. For details, please refer to the paragraph headed “Transfer of Equity Interest in FAW Sihuan” in this section. As of the Latest Practicable Date, our Company had a 50% shareholding in FAW Sihuan and Changchun FAWSN, an Independent Third Party, owned the remaining 50% equity interest.

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REORGANIZATION

The corporate chart below illustrates the shareholding structure of our subsidiaries immediately prior to the Reorganization.



Note 1: The remaining 50% equity interests were held by Changchun FAWSN, an Independent Third Party.

1. Transfer of all operating assets and liabilities relating to heat supply and heat supply-related services

From 1 January 2018, Changchun Heating Group transferred all its operating assets and liabilities relating to heat supply and heat supply-related services, save for (i) the Excluded Business (for details, please refer to the paragraph headed “Relationship with Our Controlling Shareholder – The Excluded Business and Reasons for Exclusion” in this section); and (ii) Boiler Assets, to our Company pursuant to the Transfer Agreements in preparation for the Listing. The Boiler Assets were not transferred to us because we ceased to use boilers as heat source.^{Note 2}

Note 2: The historical financial information includes the Boiler Assets and the related liabilities before the Reorganization because the Boiler Assets were directly related to the Core Operations for the years ended 31 December 2016 and 2017. The Boiler Assets and the related liabilities were then derecognized as a distribution to Changchun Heating Group on 1 January 2018.

HISTORY, DEVELOPMENT AND REORGANIZATION

2. Transfer of equity interest in the entities (國有資產無償劃轉)

From 1 January 2018, a series of equity restructuring were completed in preparation for the Listing where Changchun Heating Group and our Company entered into the Transfer Agreements. Pursuant to the agreement, Changchun Heating Group agreed to transfer its 100% shareholding in Changchun Runfeng, Changre Maintenance, Heating Engineering Design, Changre Pipelines and Changre Electrical Apparatus to our Company at nil consideration, whereby these subsidiaries became directly and wholly owned by our Company. Pursuant to the proposal in relation to the transfer of equity interest in the relevant assets and liabilities from Changchun Heating Group (《長春市熱力(集團)有限責任公司無償劃轉相關資產債務處置方案》), Changchun Runfeng transferred its 100% shareholding in Changchun Runfeng Xiyu Services Co., Ltd.* (長春市潤鋒洗浴服務有限公司) and Changchun Runfeng Yuanlin Lvhuo Co., Ltd.* (長春市潤鋒園林綠化有限公司) to Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司) at nil consideration from 1 January 2018 since the businesses of these two companies are not related to heat supply and beyond our scope of business.

From 1 January 2018, as part of the Reorganization, the 50% equity interests in FAW Sihuan was transferred by Changchun Heating Group to our Company at nil consideration pursuant to the Transfer Agreements. FAW Sihuan became directly owned as to 50% by our Company after the Reorganization.

3. Introduction of new shareholder as a Pre-IPO investor and capital injection

On 26 April 2018, upon approvals by SASAC Changchun, Changchun Heating Group, Changchun SCIO Group and our Company entered into a capital increase agreement, pursuant to which Changchun SCIO Group became our new shareholder and agreed to inject RMB28,000,000 in our Company, of which RMB3,763,400 was included as registered capital of our Company and the remaining RMB24,236,600 was included as capital reserves of our Company (the “**Capital Injection**”). The consideration was determined based on our net asset value as at 1 January 2018 according to the audit report issued by an Independent Third Party accounting firm and was fully paid on 27 April 2018. The approximate investment cost paid by Changchun SCIO Group per share was RMB1.14 and the approximate percentage of discount from Offer Price was 48.2%, assuming the Offer price is HK\$2.20 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$1.90 to HK\$2.50 per Offer Share. Following the completion of the Capital Injection, Changchun SCIO Group became a shareholder of our Company, holding 7% equity interest in our Company, while Changchun Heating Group held 93% equity interest in our Company. The registered capital of our Company was increased to RMB53,763,400.

Background and Independence of Changchun SCIO Group

Changchun SCIO Group is a wholly state-owned company established in the PRC with limited liability on 23 December 2003. As at the Latest Practicable Date, Changchun SCIO Group is wholly-owned by SASAC Changchun. It is primarily engaged in the management and investment of state capital.

HISTORY, DEVELOPMENT AND REORGANIZATION

Changchun SCIO Group was an Independent Third Party to our Company and its connected persons immediately prior to its investment.

Strategic Benefits Brought by Introducing Changchun SCIO Group as Our Shareholder

Our Directors are of the view that our Group can benefit from such Pre-IPO investment by diversifying our shareholding structure and the provision of working capital.

The proceeds received from Changchun SCIO Group were mainly used for development of our business and as capital expenditure and working capital for our daily operations. As at the Latest Practicable Date, the proceeds had been fully utilized.

Special Rights

Changchun SCIO Group does not enjoy any special right under the capital increase agreement disclosed above. Our Company does not grant any other special right to Changchun SCIO Group separately.

Lock-up Restriction and Effect on Public Float

The terms of the capital increase agreement did not impose any lock up obligations over the equity interest held by Changchun SCIO Group upon Listing. These shares would not be considered as part of the public float because the shares held by Changchun SCIO Group upon Listing are Domestic Shares.

Sole Sponsor's View

The Sole Sponsor confirmed that the transactions contemplated under the aforesaid capital increase agreement are in compliance with the “Interim Guidance on Pre-IPO Investments” (GL29-12) and the “Guidance on Pre-IPO investments” (GL43-12) issued by the Hong Kong Stock Exchange as (i) the consideration in relation to the aforesaid capital increase agreement was settled on or before 27 April 2018, which was more than 28 clear days before the submission of the first application form to the Hong Kong Stock Exchange in relation to the Listing; and (ii) no special right has been granted to Changchun SCIO Group under the aforesaid capital increase agreement. The “Guidance on Pre-IPO investments in convertible instrument” (GL44-12) issued by the Hong Kong Stock Exchange is not applicable since no convertible instrument was issued.

4. Conversion into a joint stock limited company and share restructuring

On 30 May 2018, upon approvals by the shareholders and SASAC Changchun, our Company was converted into a joint stock limited company. As of the Latest Practicable Date, Changchun Heating Group and Changchun SCIO Group held as to 93% and 7% of equity interest in our Company, respectively. Our Company was re-named as Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司).

HISTORY, DEVELOPMENT AND REORGANIZATION

On 30 May 2018, Changchun Heating Group and Changchun SCIO Group entered into a share restructuring agreement. Upon approval from SASAC Changchun, our registered capital was increased to RMB350,000,000 and the number of shares was increased to 350,000,000. Immediately after the share restructuring, our registered share capital was RMB350,000,000 and all of which had been fully paid. Changchun Heating Group and Changchun SCIO Group held as to 93% and 7% equity interests in our Company, respectively.

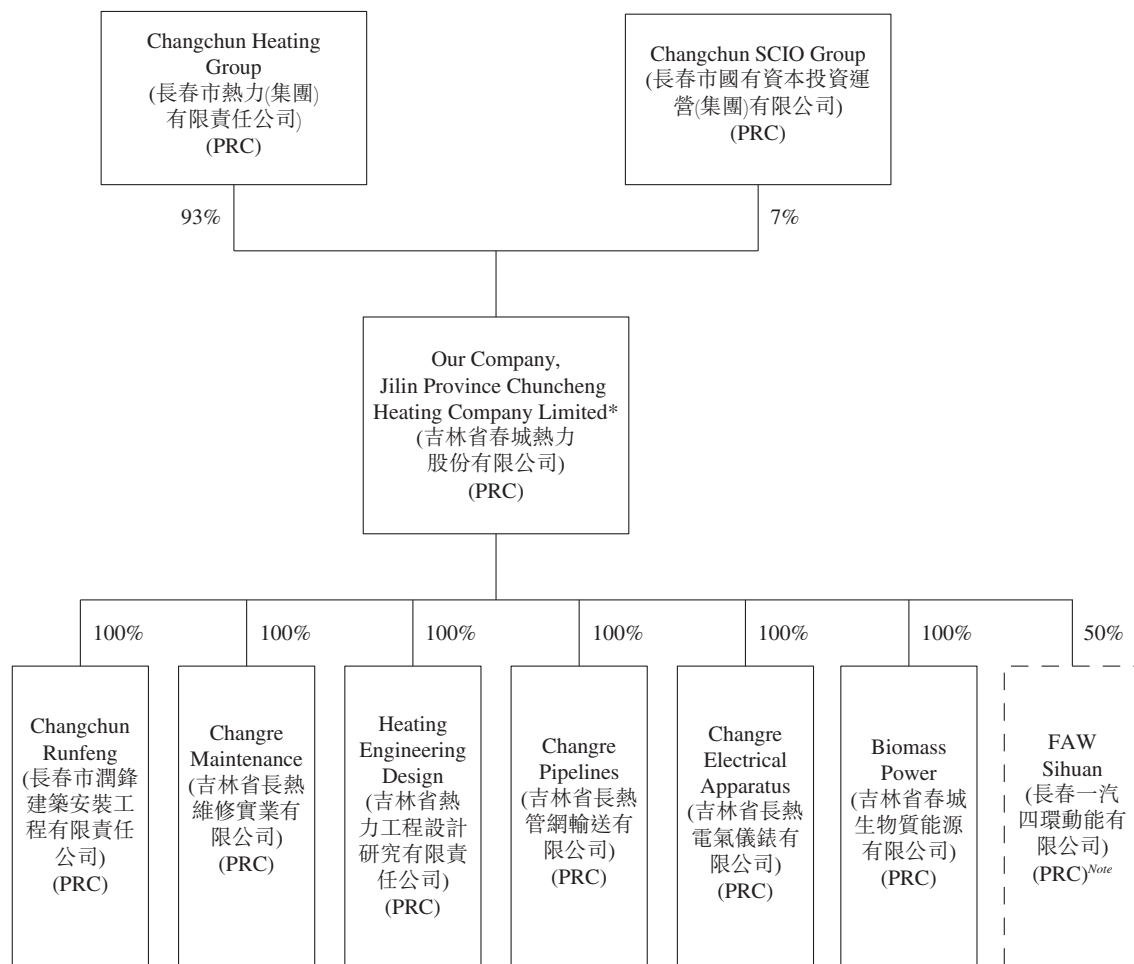
5. Incorporation of Biomass Power

On 10 December 2018, our Company established Biomass Power under the laws of the PRC as a limited liability company. Biomass Power is a direct wholly-owned subsidiary of our Company.

Our Controlling Shareholder retained certain Excluded Businesses, for details, please refer to the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion” in this prospectus.

CORPORATE STRUCTURE

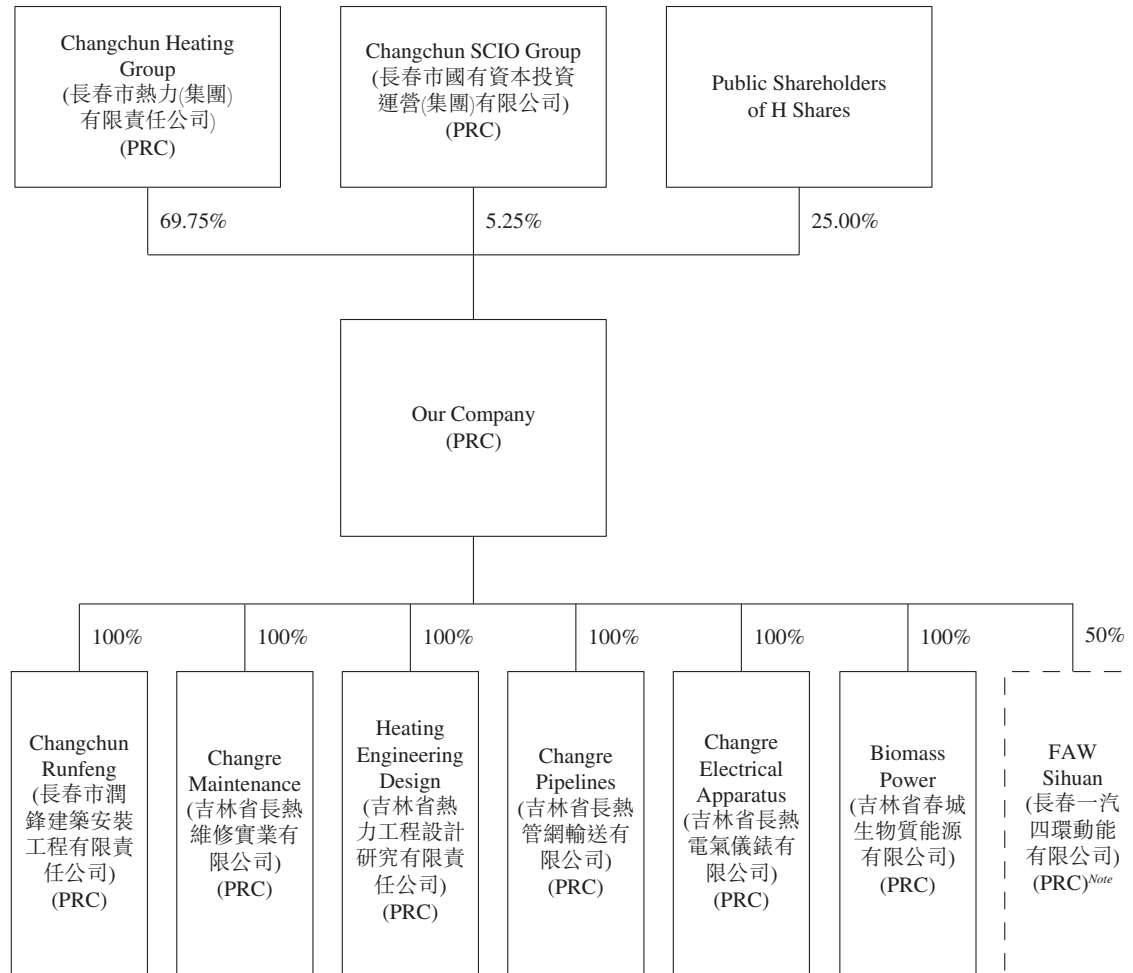
The chart below illustrates the shareholding structure of our Group upon completion of the Reorganization and immediately prior to the Global Offering.



Note: The remaining 50% equity interests were held by Changchun FAWSN, an Independent Third Party.

HISTORY, DEVELOPMENT AND REORGANIZATION

The corporate chart below sets out our ownership and corporate structure immediately after the Global offering, assuming the Over-allotment Option is not exercised at all.



Note: The remaining 50% equity interests were held by Changchun FAWSN, an independent third party.

Confirmation from our PRC Legal Advisers

Our PRC Legal Advisers have confirmed that, as of the Latest Practicable Date, (i) the settlement of all the equity transfers in the Reorganization process had been legally completed; (ii) the Reorganization of our Group was in compliance with the provisions of relevant PRC laws and regulations in all material aspects; and (iii) our Group had obtained all necessary approvals from the relevant authorities in the PRC related to the Reorganization under the relevant PRC laws and regulations.

OVERVIEW

We were the largest heat service provider in Jilin Province in terms of heat service area in 2018, according to the Frost & Sullivan Report. Heat supply is our core business, which has more than 20 years of operating history in Changchun. We also offer construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair.

We have established a leading position and extensive experience in the heat supply industry in Changchun and Jilin Province. Our heat service area increased by 2.6 million sq.m., or 7.8%, from 33.2 million sq.m. as at 31 December 2016 to 35.8 million sq.m. as at 31 December 2017, increased by 2.7 million sq.m., or 7.5%, to 38.5 million sq.m. as at 31 December 2018, and remained as approximately 38.5 million sq.m. as at 31 March 2019. As at 31 December 2018, our heat service area accounted for approximately 6.3% and 15.4% of the total heat service area in Jilin Province and Changchun, respectively.

During the Track Record Period, our heat was sourced through two channels: (i) heat procured from local cogeneration plants; and (ii) heat produced by coal-fired boilers. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, in terms of volume, approximately 67.9%, 68.8%, 82.7% and 100% of our heat was procured from local cogeneration plants, respectively. These plants are No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant, which are Independent Third Parties. For the same periods, in terms of volume, approximately 32.1%, 31.2%, 17.3% and none of our heat was generated from the coal-fired boilers owned by our Controlling Shareholder, respectively, which were not transferred to our Group during the Reorganization. Due to the fact that we are able to secure our heat demand from the local cogeneration plants and that heat generated by cogeneration plants is considered more stable, economic and environmentally friendly compared to heat produced by coal-fired boilers, we completely ceased our heat production by coal-fired boilers upon the expiration of the heat supply period in April 2018. This was also driven by the fact that cogeneration is favored by the local policies and phasing out coal-fired boilers progressively is encouraged.

Since 2016, we have been in the process of constructing our smart heating network system phase by phase with the objectives to improve our heat supply quality, increase our operating efficiency, save energy and reduce labor costs. In June 2018, our smart heating network system was recognized as a leading system in heat supply industry by China Urban Heating Association (中國城鎮供熱協會). Our smart heating network system is able to achieve (i) real-time operation monitoring, (ii) equipment remote control, (iii) operating data collection and analysis, and (iv) automated output adjustment and problem solving, which enable us to improve our heat supply efficiency and productivity.

Pursuant to relevant rules and regulations, we only supply heat during the heat supply period which typically commences in October and ends in April of the following year. Our heat supply customers include residential and non-residential end-users located within our heat service area. During the Track Record Period, we had maintained a broad customer base within

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our heat service area. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had 258,098, 284,750, 306,966 and 306,966 customers, respectively. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our heat supply business was approximately RMB782.0 million, RMB854.8 million, RMB939.5 million and RMB487.5 million, representing approximately 92.2%, 77.1%, 65.2% and 88.8% of our total revenue, respectively.

In addition to our heat supply business, we are a comprehensive heat supply-related service provider. Our construction, maintenance and design services, together with our heat supply, cover a wide spectrum of services of the industrial chain. Our footprints of construction, maintenance and design services mainly cover northeast China. The industry in which the customers of our construction, maintenance and design services operate covers a broad range, including, among others, heat supply, property development and civil construction. During the Track Record Period, revenue generated from our construction, maintenance and design services increased by approximately RMB187.2 million, or 281.8%, from approximately RMB66.4 million for the year ended 31 December 2016 to RMB253.6 million for the year ended 31 December 2017, and increased by approximately RMB247.0 million, or 97.4%, to approximately RMB500.6 million for the year ended 31 December 2018, and increased by approximately RMB34.7 million, or 130.2%, from approximately RMB26.7 million for the three months ended 31 March 2018 to approximately RMB61.4 million for the three months ended 31 March 2019.

We have achieved a stable track record of sustainable growth. Our revenue increased from approximately RMB848.4 million for the year ended 31 December 2016 to approximately RMB1,108.4 million for the year ended 31 December 2017, and further increased to approximately RMB1,440.2 million for the year ended 31 December 2018, with a CAGR of approximately 30.3%, and increased by approximately RMB53.5 million, or 10.8%, from approximately RMB495.4 million for the three months ended 31 March 2018 to approximately RMB548.9 million for the three months ended 31 March 2019. Our profit for the year increased from approximately RMB72.8 million for the year ended 31 December 2016 to approximately RMB85.8 million for the year ended 31 December 2017, and further to approximately RMB102.7 million for the year ended 31 December 2018, with a CAGR of approximately 18.8%, and increased by approximately RMB42.5 million, or 49.5%, from approximately RMB86.0 million for the three months ended 31 March 2018 to approximately RMB128.6 million for the three months ended 31 March 2019.

OUR COMPETITIVE STRENGTHS

We believe that our historical growth is attributable to the following competitive strengths:

We were the largest heat service provider in Jilin Province in 2018 with leading market position and we operate in the heat supply market where there are significant barriers to entry.

We were the largest heat service provider in Jilin Province in terms of heat service area in 2018, according to the Frost & Sullivan Report. As at 31 December 2018, our heat service area was approximately 38.5 million sq.m., accounting for approximately 6.3% and 15.4% of the total heat service area in Jilin Province and Changchun, respectively. Together with our investment in FAW Sihuan (for more information, please refer to the paragraph headed “– Heat Supply – Investment in FAW Sihuan” in this section of this prospectus), the total heat service area increased to approximately 41.5 million sq.m. as at 31 December 2018.

During the Track Record Period, we had maintained a broad customer base within our heat service area. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had 258,098, 284,750, 306,966 and 306,966 customers, respectively, which include residential and non-residential heat supply end-users. We believe that our leading market position in Jilin Province and Changchun will allow us to further develop and grow our heat supply business in Changchun as well as Jilin Province.

We believe that it is difficult for our competitors to challenge our leading market position in Changchun and Jilin Province for the reason that heat supply industry in the PRC is subject to significant entry barriers. Particularly, heat service providers entering into a heat service area are subject to the following entry barriers:

- due to the limitation of underground space necessary for pipelines and the concern over repeated pipeline construction by multiple heat service providers, heat supply business is subject to the overall planning by local government. In particular, heat service area is subject to the local authority’s centralized planning and management pursuant to the relevant laws and regulations. In practice, the municipal authority typically authorizes only one heat service provider to operate within a planned heat service area. We, being the existing heat service provider in our heat service area, are unlikely to face competition with another heat service provider within our current heat service area.
- heat supply business relies on the construction and coverage of primary pipelines. Our exclusive right to use our extensive heat distribution network allows us to reach a large base of existing and potential heat supply end-users and enables us to remain competitive in the market.

- heating projects require significant capital investment and heat service providers must possess sufficient fund as well as qualified staff to be eligible for obtaining the heating licenses. Heat supply services are also subject to various technical standards and qualifications which are set increasingly higher. We believe that we are well-positioned to meet these requirements and standards and to compete effectively in the market.

Leveraging on our leadership, experience and resources available to us, we possess strong capabilities to actively capture potential opportunities in the heat supply industry going forward. Particularly, heat supply industry is experiencing a process of integration and consolidation which partly results from the PRC Government's increasingly stringent environmental protection requirements. Pursuant to Changchun Municipal Heat Supply Management Measures (長春市城市供熱管理辦法), Changchun municipal heat supply industry should prioritize the development of a centralized heat supply model and scattered boiler plants should be progressively phased out. Heat generating boiler plants which do not fulfill the environmental protection requirements will be requested to shut down by the authority. Our early presence in the market and establishment of leading position enable us to further expand our operation scale by taking over the heat service areas which are released from the coverage of phased-out boiler plants. During the Track Record Period, our initiatives to take over such heat service areas had been fully supported by the government policies and were benefited from government subsidies thereunder. We believe that we are able to continue to obtain newly released heat service areas and maintain our leading position.

Our heat is currently fully sourced from the local cogeneration plants, which allows us to benefit from the cost effectiveness of this heat source.

During the Track Record Period, our heat was mostly sourced from cogeneration plants. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, in terms of volume, approximately 67.9%, 68.8%, 82.7% and 100% of our heat was procured from local cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant, and approximately 32.1%, 31.2%, 17.3% and none of our heat was from heat produced by coal-fired boilers. We discontinued in part our heat production by coal-fired boilers from February 2018 following our entering into a heat procurement agreement with No. 5 Cogeneration Plant, a new cogeneration plant which came into operation at the end of 2017. Upon the expiration of the heat supply period in April 2018, we completely ceased our heat production by coal-fired boilers and all of the heat demand is satisfied by heat procurement from the three local cogeneration plants. According to the Frost & Sullivan Report, cost level per unit of heat generated by cogeneration plants is the most cost effective compared with that of heat generated by other sources which mainly include coal/gas-fired boilers, industrial waste heat and heat pumps. In addition, heat generated by cogeneration plants is considered more stable, economic and clean compared to heat produced by coal-fired boilers. For the years ended 31 December 2016, 2017 and 2018, our average procurement cost for heat procured from cogeneration plants by heat service area was approximately in the range of RMB9.0/sq.m. to RMB10.5/sq.m., while the average cost for our heat production by

coal-fired boilers by heat service area was approximately in the range of RMB8.5/sq.m. to RMB16.5/sq.m. Going forward, we will benefit from the effective cost structure reflected in the full satisfaction of our heat demand from heat and power cogeneration in our heat supply.

Changchun currently has five cogeneration plants in operation in total. We have established stable relationship with three out of the five local cogeneration plants. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, approximately 14.1 million GJ, 13.9 million GJ, 18.4 million GJ and 10.7 million GJ of heat was procured from the three local cogeneration plants, respectively. While we typically enter into heat procurement agreements with the local cogeneration plants for each of the heat supply period, we have maintained stable relationships with them. In addition, our primary distribution pipelines are connected to the three cogeneration plants (particularly, our primary distribution pipelines are the sole heat distribution system with access to the inner urban areas of Changchun and connected to No. 4 Cogeneration Plant and No. 5 Cogeneration Plant). As a result, we believe that we will be able to maintain our advantageous position in terms of procuring heat from the local cogeneration plants. Furthermore, given such advantageous position, to the extent permitted by law, we are able to transfer our heat procurement quota obtained from the cogeneration plants to other heat service providers.

We have adopted a leading smart heating network system, which allows us to conduct our heat supply business precisely and efficiently.

Since 2016, we have been in the process of constructing our smart heating network system phase by phase with the objectives to improve our heat supply quality, increase our operating efficiency, save energy and reduce labor costs. In June 2018, our smart heating network system, was recognized as a leading system in heat supply industry by China Urban Heating Association (中國城鎮供熱協會).

Our smart heating network is a system consisting of a combination of sensors, meters, automated equipment, surveillance and other hardware and software. Through the smart heating network system, we are able to achieve at our control center (i) real-time operation monitoring which enables us to reduce manpower requirement; (ii) equipment remote control which enables us to reduce manpower requirement and minimize human error; (iii) operating data collection and analysis which improve the accuracy and safety of our operation; and (iv) automated output adjustment and problem solving proposals which allow energy saving and ensure safe operation. With our smart heating network system, we have reduced manpower headcount in daily heat supply operations and maintenance while our heat service area continues to grow. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our heat service area per employee was approximately 25,004 sq.m., 30,503 sq.m., 36,021 sq.m. and 36,021 sq.m., respectively. In addition, as we have access to more timely and accurate data relating to the heat supply operation, we are better positioned to adjust our heat supply amount according to the actual demand, allowing us to operate precisely and efficiently.

Our heat supply business has a long history in Changchun with strong brand recognition and we are a comprehensive heat supply-related service provider.

Our heat supply business has a history of over 20 years in Changchun. Over the years of our business operation, we have been able to create strong brand recognition among our customers and enhance our reputation while strategically expanding our market share. Our heat supply has served a wide range of end-users, including universities, commercial and industrial companies and a large population of residents. We have received a series of awards for heat supply operation. For example, we were awarded the Outstanding Company in the 2016 Standardization Assessment of Heat Supply Industry in Jilin Province (吉林省供熱行業2016年度規範化考核工作優秀單位) by Jilin Province Housing and Urban-Rural Construction Department. We provide extensive customer services to our heat supply end-users. We have established an end-user service system to handle various requests from our end-users. The end-user service system is an important channel to resolve issues arising from the heat supply operation and to improve customer satisfaction. In addition, we have a dedicated team responsible for emergency response. We believe that our excellent performance of services will allow us to further enhance our recognition among the end-users.

Based on our extensive experience and reputation in the heat supply business, we have established our strong capabilities of offering construction, maintenance and design services. Our construction, maintenance and design services include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. As a result, we are not only able to minimize our reliance on third parties for our demand of these services in our heat supply business, but are also able to supplement our revenue by offering these services to external customers. During the Track Record Period, our construction, maintenance and design services experienced a significant growth with higher profitability. During the Track Record Period, revenue generated from our construction, maintenance and design services increased by approximately RMB187.2 million, or 281.8%, from approximately RMB66.4 million for the year ended 31 December 2016 to RMB253.6 million for the year ended 31 December 2017, and increased by approximately RMB247.0 million, or 97.4%, to approximately RMB500.6 million for the year ended 31 December 2018, and increased by approximately RMB34.7 million, or 130.2%, from approximately RMB26.7 million for the three months ended 31 March 2018 to RMB61.4 million for the three months ended 31 March 2019. We expect that we will be able to further enhance our competitiveness by offering these services.

We have an experienced and committed management team.

We are led by an experienced and committed management team, which has extensive exposure and in-depth knowledge in the industry. Mr. Liu Changchun (劉長春), our Chairman of our Board and a non-executive Director, has held senior positions in local government and has management experience in various state-owned companies. Mr. Liu has obtained the qualification as a senior engineer in heat treatment of metal materials awarded by the Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳). Mr. Liu also passed exams in respect of legal, ethical and operational framework of funds (基金法

律法規、職業道德與業務規範), fundamental knowledge in investment funds of private equity shares (私募股權投資基金基礎知識) and fundamental knowledge in investment funds of securities (證券投資基金基礎知識) organized by the Asset Management Association of China (中國證券投資基金業協會). Mr. Liu was also awarded as an expert with outstanding contributions (有突出貢獻專家榮譽稱號) jointly by the Changchun Municipal Chinese Communist Party's Committee (中共長春市委) and the People's Government of the Changchun Municipal (長春市人民政府). Mr. Yang Zhongshi (楊忠實), our vice chairman of the Board, an executive Director and the general manager, has been working with us since 1998. He is particularly experienced and knowledgeable of heat supply industry and he is a senior engineer in heating engineering since January 2013. Mr. Yang served as one of the members of expert and technology committee to China City Heat Supply Association (中國城鎮供熱協會) in 2017. He is also a member named in the expert list published by Jilin Province City Heat Supply Association (吉林省城鎮供熱協會). Mr. Shi Mingjun (史明俊), our executive Director and deputy general manager, joined us in 1998. He has 23 years of experience in heat supply industry and has supervised a number of large-scale heating construction projects. He is also a senior engineer in industrial and civil construction (工業與民用建築正高級工程師) since January 2017 and a bidding assessment expert of Jilin Province construction biddings. He was awarded "Expert with Outstanding Contribution to Changchun" (長春市有突出貢獻專家) by Changchun Communist Party Committee (中共長春市委) and Changchun Municipal Government (長春市人民政府) in December 2015. Mr. Zhang Liming (張黎明), our deputy general manager joined us in January 1999. He has over 20 years of experience in heat supply industry. He is a senior engineer in heating construction (供熱工程高級工程師) since January 2007. Mr. Li Yeji (李業績), our executive Director and manager of the construction management center, joined us in 2001. He has 17 years of experience in heat supply industry. He is a senior engineer in heating ventilation and air condition engineering (暖通工程高級工程師) since January 2013. For more information relating to our management team, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus. Our management team has demonstrated their strategic vision in defining our overall development plan, identifying market opportunities and their ability to effectively implement our business strategies.

OUR BUSINESS STRATEGIES

Leveraging on our experience and market reputation, we plan to implement the following strategies to achieve our goals:

Further enhance our smart heating network system and improve operational efficiency.

We are committed to the improvement of our heat supply services. We believe that through the application of new technologies, we are able to achieve better quality while reducing our operating cost and increasing our profitability. Thus, we intend to further increase the level of automation in our heat supply through continued upgrading of our smart heating network. Our smart heating network system has been proven to lower manpower requirements and is more energy efficient without compromising the level of comfort given to our heat supply end-users. We plan to expand the system's coverage. Currently, our smart heating

network system is able to cover a network including output gateway at the cogeneration plants, our primary distribution pipelines and heat exchange stations. We plan to extend such coverage to reach in-room heating equipment so that we will be able to achieve in-room temperature monitoring and adjustment. Our goal is to better control our heat supply according to the actual heat consumption while ensuring end-user's comfort staying indoor.

As part of our efforts to improve operational efficiency, we also intend to invest in the upgrading of our aged heat distribution pipelines to reduce the costs incurred in the water leakage and heat lost resulting from corrosion. This will further help us improve efficiency in the long run.

Continue to strengthen our construction, maintenance and design services capabilities.

We intend to continue to grow our construction, maintenance and design services as we expand our heat service area. During the Track Record Period, revenue generated from our construction, maintenance and design services was approximately RMB66.4 million, RMB253.6 million, RMB500.6 million and RMB61.4 million for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, accounting for approximately 7.8%, 22.9%, 34.8% and 11.2% of our total revenue for the same periods, respectively. Specifically, we plan to obtain additional or higher levels of qualifications, licenses and permits to be eligible for being engaged to provide more diversified and complex construction, maintenance and design services. We also plan to strengthen our relationship with customers and improve our branding and reputation in the areas of construction, maintenance and design services. Furthermore, we will continue to enhance our quality control and safety management of construction, maintenance and design services and improve the competency of our team members providing these services.

Proactively seek potential opportunities in heat supply industry and strategically increase our market share within and outside Jilin Province.

We believe that heat supply market in the PRC will continue to grow with optimistic prospects driven by various factors, such as urbanization process, market integration and consolidation due to more stringent environmental protection requirements and replacement of boilers of smaller capacity. We intend to expand our heat supply business in line with the organic growth in the demand of the heat supply market. We also intend to capture potential merger and acquisition opportunities and increase our market share. We currently have not identified any acquisition targets and we intend to pursue suitable acquisition opportunities which include (i) heat services companies operating in the heat service area close to our primary distribution pipelines; (ii) heat services companies operating a meaningful size of heat service area or with higher profitability; and (iii) companies equipped with higher level of technologies.

In addition, we intend to align our further development in our heat supply business with the PRC Government's favorable laws, regulations and policies that encourage developments of the industry. Such policies mainly relate to phasing out obsolete boiler plants, upgrading and

renovation projects for environmental protection and upgrading aged heat distribution pipelines. For example, we intend to construct primary distribution network and supply heat in Mishazi County of Dehui City after a biomass-fired power plant is constructed. Please refer to the section headed “Relationship with Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion” for details. Market integration and consolidation is anticipated following the implementation of these policies. Pursuant to Changchun Municipal Heat Supply Management Measures (長春市城市供熱管理辦法), Changchun municipal heat supply industry should prioritize the development of a centralized heat supply model and scattered boiler plants should be progressively phased out. We plan to continue to expand our operation scale by taking over the heat service area which is released from the coverage of phased-out boiler plants. We believe that we have extensive experience, branding and technical advantages to seize such opportunities.

OUR BUSINESS SEGMENTS

During the Track Record Period, we operate in two business segments, namely (i) heat supply; and (ii) construction, maintenance and design services.

Heat supply. According to Frost & Sullivan, we were the largest municipal heat service provider in Jilin Province in terms of heat service area in 2018. As at 31 December 2018, our heat service area is approximately 38.5 million sq.m., accounting for approximately 6.3% and 15.4% of the total heat service area in Jilin Province and Changchun, respectively. During the Track Record Period, revenue generated from heat supply business segment includes (i) fees charged for heat supply to customers based on heat rate; (ii) fees charged for pipeline connections; and (iii) heat transmission fees arising from transmission of heat procured from cogeneration plants using our primary distribution network. During the Track Record Period, we sourced heat from three local cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant and our heat production by coal-fired boilers. These three cogeneration plants represent three out of the five existing cogeneration plants in Changchun. No. 5 Cogeneration Plant came into operation at the end of 2017. Upon the expiration of the heat supply period in April 2018, we completely ceased our heat production by coal-fired boilers and all of the heat demand is satisfied by heat procurement from the local cogeneration plants. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our heat supply business was approximately RMB782.0 million, RMB854.8 million, RMB939.5 million and RMB487.5 million, representing approximately 92.2%, 77.1%, 65.2% and 88.8% of our total revenue, respectively.

Construction, maintenance and design services. During the Track Record Period, we were also engaged in providing services to customers in relation to (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our construction, maintenance and design services was approximately RMB66.4 million, RMB253.6 million,

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RMB500.6 million and RMB61.4 million, representing approximately 7.8%, 22.9%, 34.8% and 11.2% of our total revenue, respectively. For the same periods, a majority of revenue from construction, maintenance and design services was generated from Jilin Province.

The table below sets out our revenue breakdown by our business segments during the Track Record Period.

	For the year ended 31 December						For the three months ended	
	2016		2017		2018		31 March 2019	
	% of total revenue		% of total revenue		% of total revenue		% of total revenue	
	RMB'000		RMB'000		RMB'000		RMB'000	
Revenue								
Heat supply, of which:	782,013	92.2%	854,801	77.1%	939,522	65.2%	487,489	88.8%
– Provision and distribution of heat	724,091	85.3%	792,381	71.5%	875,399	60.8%	469,333	85.5%
– Pipeline connection fee	43,887	5.2%	48,718	4.4%	51,522	3.5%	13,501	2.5%
– Heat transmission	14,035	1.7%	13,702	1.2%	12,601	0.9%	4,655	0.8%
Construction, maintenance and design services ⁽¹⁾ , of which:	66,418	7.8%	253,572	22.9%	500,637	34.8%	61,405	11.2%
– Engineering construction	57,883	6.8%	208,547	18.8%	310,928	21.6%	44,626	8.1%
– Engineering maintenance	1,989	0.2%	36,942	3.3%	173,063	12.0%	15,424	2.8%
– Design services	5,534	0.7%	7,351	0.7%	16,051	1.1%	1,287	0.2%
– Others ⁽²⁾	1,012	0.1%	732	0.1%	595	0.1%	68	0.1%
Total	<u>848,431</u>	<u>100.0%</u>	<u>1,108,373</u>	<u>100.0%</u>	<u>1,440,159</u>	<u>100.0%</u>	<u>548,894</u>	<u>100%</u>

Notes:

- (1) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and thus revenue generated from these services was eliminated on a consolidated basis. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.
- (2) Others include rental services and sales of goods.

HEAT SUPPLY

Heat supply is our core business. We have more than 20 years of operating history in this industry. Heat supply is a basic necessity for the livelihood and work conditions of the residents in Northeast China. The average temperature of Changchun during winter season from October 2017 to April 2018 was approximately -7.4°C and the temperature could drop to below -26°C during the same period. We are committed to providing high quality heat supply

for the benefit and enjoyment of the general public and fulfilling our duty as a responsible state-owned company in the public utility sector. Heat supply is subject to various laws and regulations in the PRC. For more information, please refer to the section headed “Regulatory Overview” in this prospectus.

As at 31 March 2019, our heat supply covers an area of 38.5 million sq.m. in Changchun, Jilin Province. Heat service area is subject to the local authority’s centralized planning and management pursuant to the relevant laws and regulations and, in practice, the municipal authority typically authorizes only one heat service provider to operate within a planned heat service area.

Our heat supply customers include residential and non-residential end-users located within our heat service area. Pursuant to the relevant regulations, heat retail price varies for residential and non-residential end-users. Please refer to the paragraph headed “– Heat Supply – Sales of Heat – Pricing” in this section of this prospectus for more information.

Heat Source

During the Track Record Period, our heat was sourced through two channels, namely: (i) heat procured from local cogeneration plants; and (ii) heat produced by coal-fired boilers. Prior to the heat supply period commencing in October 2018, we used coal-fired boilers stationed in four regional locations within Changchun to produce heat, together with procured heat from cogeneration plants. We discontinued in part our heat production by coal-fired boilers from February 2018 following our entering into a heat procurement agreement with No. 5 Cogeneration Plant. Upon the expiration of the heat supply period in April 2018, we completely ceased our heat production by coal-fired boilers.

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our heat service area covered by heat generated by cogeneration plants was approximately 19.5 million sq.m., 21.8 million sq.m., 38.5 million sq.m. and 38.5 million sq.m., respectively. As at the same dates, our heat service area covered by our heat produced by coal-fired boilers was approximately 13.7 million sq.m., 14.0 million sq.m., nil and nil, respectively. We expect our total heat service area to increase to approximately 41.5 million sq.m. in the next three years after Listing, mainly by acquisitions of other heat service companies and by organic growth through construction of new distribution pipelines and heat supply facilities required thereunder. For details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. We will prioritize acquisition opportunities in Changchun City and will mainly continue to procure heat from our existing cogeneration plant suppliers. Construction of new distribution pipelines may be needed to connect those new heat service areas to our existing primary distribution network. The total heat supply required to support our total heat service area after expansion for the next three years is approximately 16.7 million GJ, which is less than the heat procurement quota of 18.3 million GJ we currently can acquire from our existing cogeneration plant suppliers in 2018. For heat service areas in other cities or outside the parameters of our existing primary distribution network, including the Mishazi County, we may be required to acquire heat from

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other cogeneration plants, including the Mishazi Cogeneration Plant, and to construct new distribution pipelines. For details, please refer to the section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion” in this prospectus.

Commencing from the heat supply period in October 2018, all of the heat demand is satisfied by heat procurement from local cogeneration plants. As a result, we are able to reduce staff requirement which was previously necessary in boiler operation and maintenance. We are less affected by fluctuation in coal price as we do not need coal procurement for the purpose of heat production by ourselves although the cogeneration plants remain fueled by coal.

While heat procured from local cogeneration plants is more cost-effective, our reliance on the operations of the cogeneration plants increases as heat procured from local cogeneration plants becomes the sole heat source of our heat supply. As such, our heat supply is more sensitive to the continuous operation of the cogeneration plants, heat procurement quota available to us and the heat procurement price applied to us.

However, our Directors believe that we are able to mitigate the risks associated with our reliance on the cogeneration plants, in consideration of the following factors:

- (i) in terms of the continuous operation of the cogeneration plants, we are assured that each of the cogeneration plants is equipped with multiple power generators which are able to back up each other in the event of technical failures or emergencies occur. With our integrated heat distribution network, each cogeneration plant is able to serve as a back-up heat source;
- (ii) the newly adopted Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》) have become effective since 1 October 2018. Accordingly, heat service providers using heat procured from local cogeneration plants are required to maintain peak-shaving boilers in order to respond to suspension or shortage in heat supply from the cogeneration plants. However, no implementation measures or detailed guidelines had been published in respect of the peak-shaving boiler requirements as at the Latest Practicable Date. Pursuant to a consultation with the Urban-rural Development Committee of Changchun (長春市城鄉建設委員會), being the competent authority as confirmed by our PRC Legal Advisers, the new regulations are considered to be complied with by a heat service provider either by constructing its own peak-shaving boilers or renting the peak-shaving boilers from third parties. As such, we have entered into a lease agreement with an Independent Third Party for the purpose of satisfying the said regulations. Our PRC Legal Advisers are of the view that with such lease agreement in place, we are equipped to meet the requirement of maintaining peak-shaving boilers as confirmed by Changchun Public Administration Bureau. For details, please refer to the key terms of such lease agreement in the paragraphs below headed “– Heat Supply – Heat Procurement from Cogeneration Plants” in this section;

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- (iii) our long-term relationship with the cogeneration plants as well as the connections of our primary distribution pipelines to the cogeneration plants will continue to secure our ability to procure heat from them;
- (iv) the cogeneration plants are incentivised to enter into heat procurement agreements with us to generate additional revenue by selling their otherwise obsolete heat energy as a byproduct of their production process, and we are the largest heat service provider in Changchun and thus are likely to generate more revenue from us; and
- (v) heat procurement price determined by the cogeneration plants is subject to the pricing guidelines issued by the PRC Government.

The table below sets out certain operating data of our heat supply for the periods indicated.

	As at/for the year ended 31 December			As at/ for the three months ended 31 March
	2016	2017	2018	2019
Heat Procurement from Cogeneration Plants				
Estimated heat procurement quota (GJ) ⁽¹⁾	13,290,000	13,290,000	18,290,000	18,290,000
Heat procurement quota transferred (GJ) ⁽²⁾	6,262,638	5,827,938	5,825,614	2,709,316
Actual consumption (GJ) ⁽³⁾	7,839,874	8,069,614	12,570,763	7,965,839
Total heat procured ⁽⁴⁾	14,102,512	13,897,552	18,396,377	10,675,155
Utilization rate (%) ⁽⁵⁾	58.9%	60.7%	68.7%	58.4%
Heat service area (million sq.m.)	19.5	21.8	38.5	38.5
Heat production by coal-fired boilers				
Designed heat consumption (MW) ⁽⁶⁾	665	690	325	— ⁽¹⁰⁾
Consolidated installed boiler-generated heat production capacity of the coal-fired boiler plants (MW) ⁽⁷⁾	1,066	1,008	1,078	— ⁽¹⁰⁾
Heat production (GJ) ⁽⁸⁾	3,708,613	3,666,860	2,627,922	— ⁽¹⁰⁾
Utilization rate (%) ⁽⁹⁾	62.4%	68.5%	30.1%	— ⁽¹⁰⁾
Heat service area (million sq.m.)	13.7	14.0	—	— ⁽¹⁰⁾
Total heat supply (GJ)	11,548,487	11,736,474	15,198,685	10,675,155
Total heat service area (million sq.m.)	33.2	35.8	38.5	38.5

Notes:

- (1) The estimated heat procurement quota for the years ended 31 December 2016 and 2017 represents an aggregate estimated quota pursuant to the heat procurement agreements with No. 2 Cogeneration Plant and No. 4 Cogeneration Plant for the heat supply period starting from October of the year indicated. Following the commencement of operation of No. 5 Cogeneration Plant in 2017, our estimated heat procurement quota from February 2018 onwards was increased by 5.0 million GJ pursuant to our heat procurement agreement with No. 5 Cogeneration Plant. Our estimated heat procurement quota for the three months ended 31 March 2019 is the same as and is included in the heat procurement quota for the

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year 2018 because the indicated period is included in the heat supply period of 2018 starting from October 2018, and the heat procurement quota is undividable by month. The heat procurement quota was an estimate of the heat procurement prior to each heat supply period based on the historical heat procurement amount.

- (2) During the Track Record Period, we transferred certain portion of procured heat to three other heat service providers. We charged heat transmission fees thereunder during the Track Record Period. For more information, please refer to the paragraph headed “– Heat Supply – Heat Procurement from Cogeneration Plants – Heat Transferred to Other Heat Service Providers” in this section.
- (3) Actual consumption of our heat procured represents the aggregate amount of actual supply and consumption data each month as recorded by the measuring equipment and reviewed and agreed by each of three local cogeneration plants and us.
- (4) The total heat procured was the sum of heat procurement quota transferred and the actual consumption. Procurement of heat exceeding the estimated heat procurement quota is subject to supplemental agreements between the cogeneration plants and us. During the Track Record Period, we have entered into supplemental agreements for all the procurement of excessive heat.
- (5) Utilization rate of heat procurement is calculated as to the actual consumption divided by estimated heat procurement quota.
- (6) Designed energy consumption is calculated based on a theoretical heat consumption value of 50W per sq.m. for Changchun based on the relevant references specified in the national design code for heating ventilation and air conditioning of civil buildings (GB 50736-2012).
- (7) Consolidated installed heat production capacity is calculated as to the combined installed heat generation capacity of the coal-fired boiler plants. Consolidated installed heat production capacity is determined with reference to designed energy consumption and by taking into consideration an extra capacity necessary as a back-up capacity in response to emergencies such as extremely cold weather condition.
- (8) Our annual heat production volume is calculated as to the aggregated actual daily heat production volume recorded by meters during the heat supply period (on a basis of 168 days for 2016 and 2017, and on a basis of 173 days for 2018). We assumed that all the heat produced had been transmitted and consumed by the end-users. The actual daily heat production volume varies based on the outdoor temperature.
- (9) Utilization rate of heat production is calculated as to designed heat consumption divided by consolidated installed heat production capacity of the coal-fired boiler plants.
- (10) The operating data of the heat production by coal-fired boilers was not applicable for the three months ended 31 March 2019 as we completely ceased the heat production by coal-fired boilers since April 2018.

In 2017, our total heat supply increased by approximately 1.6% to approximately 11.7 million GJ, while our total heat service area increased by approximately 7.8% to approximately 35.8 million sq.m., as compared to 2016. This was mainly because of a warmer heat supply period during which the average outdoor temperature was approximately -5.35°C, about 1.02°C higher than that in the relevant heat supply period of 2016 (i.e. the period from 1 January to 10 April of 2016 and the period from 25 October to 31 December of 2016). Consequently, less heat supply per unit of service area was needed in 2017 as compared to 2016 for maintaining the same desired in-room temperature.

In 2018, our total heat supply increased by approximately 29.5% to approximately 15.2 million GJ, while our total heat service area increased by approximately 7.5% to approximately 38.5 million sq.m., as compared to 2017. This was mainly due to (i) increase in the in-room temperature of our heat supply customers in order to improve our service quality and enhance our brand image. Based on the data collected from our physical inspections and our smart heating network system, the average in-room temperature of our heat supply customers was approximately 20.9°C, 21.1°C, 21.53°C and 22.08°C for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively; (ii) a longer heat supply period – as adopted by the local authority, the commencement date of the heat supply period was changed from 25 October to 20 October from 2018 onwards, five days earlier than before, that is an approximately 3.0% increase in the heat supply period from 2017 to 2018; and (iii) a colder heat supply period – the average outdoor temperature in the relevant heat supply period of 2018 (i.e. the period from 1 January to 10 April of 2018 and the period from 20 October to 31 December of 2018) was -6.37°C which was about 1.02°C lower than that of the relevant heat supply period of 2017 (i.e. the period from 1 January to 10 April of 2017 and the period from 25 October to 31 December of 2017). Thus, the heat consumption increased relatively in 2018 as compared to 2017 in order to maintain the same desired in-room temperature. Please refer to the section headed “Risk Factors – Risks relating to our Business – Heat supply is affected by the overall weather condition during the heat supply period” in this prospectus for the risk of weather impact on our heat supply business.

Heat Procurement from Cogeneration Plants

We currently have three out of the five local cogeneration plants in Changchun connecting to our primary distribution pipelines to serve as our suppliers of heat with each of which we have heat procurement agreements in place. Particularly, our primary distribution pipelines are the sole heat distribution system with access to the inner urban areas of Changchun and connected to No. 4 Cogeneration Plant and No. 5 Cogeneration Plant. The cogeneration plants use cogeneration technology to generate heat together with electricity to serve the end-users. While we typically enter into heat procurement agreements with the local cogeneration plants for each of the heat supply period, we have maintained stable relationships with them. For example, No. 2 Cogeneration Plant has been our supplier of heat for over 20 years.

The key terms of our heat procurement agreements are set out below.

Purpose of heat usage	The heat is used for industrial, residential and commercial heating purposes.
Heat supply period	The heat supply period begins on 20 October each year and ends on 6 April of the following year (or between 25 October and 10 April prior to the heat supply period of 2018-2019), subject to adjustments with respect to the heat supply period adopted by the local authority.

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Distribution coverage	The heat procurement agreement generally specifies the distribution districts of the targeted end-users.
Ownership, use right, maintenance and management of heating facilities	Heating facilities are generally owned by the party which makes the investment to construct. For the avoidance of doubt, the heat procurement agreement usually specifies a boundary point immediately adjacent to the cogeneration plant (for example, one meter from the outer wall of the cogeneration plant) where the ownership, right of use, maintenance and management of the heating facilities are defined. We have the ownership and right to use the primary distribution pipelines starting from the boundary point and we are responsible for their maintenance and management.
Estimated heat procurement quota	The heat procurement agreement usually specifies an estimated total volume of heat supply for the heat supply period, monthly heat supply volume and a daily maximum supply volume. The supply volume can be adjusted based on a mutual agreement. The heat supply should be continuous without disruption. The actual heat usage shall be cross checked on a monthly basis.
Heat supply specifications	To ensure the heat supply quality and safety, the heat procurement agreement usually specifies certain specifications, such as hot water flowing volume, gateway pressure, hot water discharge and return temperature, water loss rate and daily heat supply ceiling.
Heat measurement	The local cogeneration plants are responsible for the installation of measurement equipment which is used for monitoring the heat supply specifications. The measurement records as agreed by both parties are the bases for clearing and settlement of heat supply. Any disputes with respect to the measurement records should be resolved through negotiation. Under certain circumstances that the disputes cannot be resolved through negotiation, the parties must appoint a provincial institute of metrology for calibration.

Pricing, billing and payment	<p>The heat procurement price consists of basic heat supply rate and fees charged for water loss. Please refer to the paragraphs headed “– Heat Supply – Heat Procurement from Cogeneration Plants – Heat Procurement Price” in this section for more details. We are usually required to make full prepayment of the fees for the entire annual heat supply period before the opening of heat discharge gateway when the heat supply period begins. The settlement date is usually the 25th day of each month, when both parties are required to confirm the actual monthly heat supply volume. Monthly fees are deducted from prepayments made. Within no more than 30 days from the expiration of the heat supply period, the balances should be paid by either side based on the actual heat supply volume.</p>
Disruption, suspension and shortage	<p>The local cogeneration plants are required to fully inform us if their productions are unable to meet our heat demand due to various accidents occurred to coal supply and transportation, water and electricity supply and equipment operation. The local cogeneration plants have a right to inspect our facilities and take countermeasures if the water loss rate is found to be higher than 2%, which could compromise the heat supply safety. The local cogeneration plants may limit or suspend heat supply if we are unable to settle overdue payments. We are required to establish contingency plan and sort out standby heat source in response to potential heat shortage.</p>
Breach of agreement	<p>The cogeneration plants are liable for our damages in the event that heat supply restriction or suspension occurs without justifiable reasons. In case that we have overdue payments, on the other hand, we are subject to interest penalties for the overdue payments and if any overdue payments are not settled within 30 days from the end of heat supply period, our estimated heat procurement quota for the following year will be reduced pro rata. In the event that we are in breach of the heat procurement agreement, such as without cogeneration plant’s prior authorization, transfer of heat procurement quota or making adjustments to the heating equipment, or our failure to fix significant leakages, we are responsible for terminating the breach and are subject to damages to the cogeneration plants.</p>

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Any overhaul of the local cogeneration plants during heat supply period due to their maintenance and repair is generally undertaken with prior consultation with us. Each of the three cogeneration plants is equipped with multiple power generators which are able to back up each other in the event of technical failures or emergencies occur. During the Track Record Period, we had not experienced any major heat supply suspension due to overhaul of local cogeneration plants or other reasons which had a material adverse impact on our business operation.

Pursuant to the Regulations on Changchun Municipal Heat Supply Management implemented in October 2018, heat service providers using heat procured from local cogeneration plants are required to maintain peak-shaving boilers in order to respond to suspension or shortage in heat supply from the cogeneration plants. In order to comply with the regulations, we entered into an agreement with an Independent Third Party, which is a heat supply provider in Changchun, to lease their peak-shaving boilers. The key terms of the agreement are set out below:

Term	The term commences on 1 October 2018 and ends on 30 September 2021, and may be further extended if the lessor does not object in writing seven days prior to end of the initial term.
Rental fee	Rental fee is RMB6/GJ as determined on the actual consumption amount with an annual cap of RMB27.6 million. The fee may be subject to further adjustments as the parties may agree prior to each heat service period.
Right to use peak-shaving boilers	<p>During the lease period, we have the exclusive right to use the peak-shaving boilers in the circumstances prescribed under the Regulations on Changchun Municipal Heat Supply Management but we are not entitled to use it for our daily operations.</p> <p>If the lessor is required by the government policy to dismantle the peak-shaving boilers, we are entitled to seek compensation from the lessor and at the same time, the lessor is obliged to find alternative peak-shaving boilers for us.</p>
Repair and maintenance	During the lease period, the lessor shall be responsible for the installation, tuning, maintenance and safety of the peak-shaving boilers and shall bear the relevant expenses.

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We shall not be responsible for any damages or malfunction of the peak-shaving boilers unless they are caused by us.

Breach of agreement

In the event of a breach of the agreement, the non-defaulting party may seek damages against the defaulting party for any loss suffered and/or terminate the agreement.

Breaches by the lessor may include: (1) change of ownership of the peak-shaving boilers; (2) failure to repair the peak-shaving boilers; (3) part or all of the peak-shaving boilers is damaged or unusable; (4) delay in delivery of the peak-shaving boilers for more than 10 days; or (5) the peak-shaving boilers are involved in any dispute which affect our operations.

Breaches by us may include: (1) arrears of rent for more than 10 days; or (2) the peak-shaving boilers are damaged, demolished or unusable due to our fault.

Termination

Each party also has the right to terminate the agreement by giving notice to the other party 30 days in advance.

Heat Transferred to Other Heat Service Providers

During the Track Record Period, approximately 6.3 million GJ, 5.8 million GJ, 5.8 million GJ and 2.7 million GJ of the heat procurement quota we obtained from the local cogeneration plants was transferred to three other heat service providers after we received consents from the cogeneration plants. However, heat supply procured from the local cogeneration plants is first used to satisfy our own needs. The heat rate we charge such heat service providers was the same as what we pay the local cogeneration plants, and in addition to the heat rate we are entitled to charge heat transmission fees ranging from RMB3.85/GJ to RMB6.5/GJ which are subject to government laws and regulations. For details, please refer to the section headed “Regulatory Overview – Heat Supply – Pricing” in this prospectus. We only recognized the heat transmission fee and did not recognize the heat procurement fee for the heat procured from the cogeneration plants and transferred to the other heat service providers since it is in nature tantamount to payment on behalf of the heat service providers to the cogeneration plants. For details, please refer to the section headed “Financial Information – Critical Accounting Policies – Revenue and other income recognition – (3) Heat transmission service” in this prospectus.

Some of the branch networks connected to our primary distribution network from No. 2 Cogeneration Plant are owned by one of the three heat service providers (referred to hereafter in this paragraph as “**Heat Service Provider A**”), and such branch networks are used solely for

transmitting heat from No. 2 Cogeneration Plant to Heat Service Provider A and we did not use them for our heat supply business. Heat transmission fee was waived for transferring approximately 2.9 million GJ, 2.9 million GJ, 2.9 million GJ and 1.6 million GJ of heat from No. 2 Cogeneration Plant to Heat Service Provider A for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. Nevertheless, we still charge Heat Service Provider A for heat transmission fee for the heat transferred from No. 4 Cogeneration Plant to them. We maintained this arrangement with Heat Service Provider A as (i) the aforementioned branch networks are not owned by us; and (ii) we would want to maintain on-going business relationship with Heat Service Provider A for the heat transferred from No. 4 Cogeneration Plant to them through which we charge. Accordingly, for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we received heat transmission fees in the amount of approximately RMB14.0 million, RMB13.7 million, RMB12.6 million and RMB4.7 million, accounting for approximately 1.7%, 1.2%, 0.9% and 0.8% of our total revenue for the same periods, respectively. We expect to continue such transfer in the future to the extent permitted by law. We believe that we are well-positioned to continue being engaged in heat procurement quota transfer within our heat distribution network coverage with our integrated heat distribution system connecting all of the three local cogeneration plants.

Heat Procurement Price

Heat procurement price consists of two categories of fees, including (i) fees charged for basic heat supply at a benchmark rate approved by the national and local pricing bureaus, currently at RMB27.5/GJ (VAT included), and in some cases at a higher rate for procured volume that exceeds a certain agreed level; and (ii) fees charged for water loss during heat transmission based on a rate as agreed by both parties, by reference to a benchmark rate of water set by the relevant authority and other operational costs, currently at approximately RMB6.6/ton. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the average heat procurement price which is calculated on a basis of excluding VAT was approximately RMB24.3/GJ, RMB24.7/GJ, RMB26.4/GJ and RMB28.6/GJ, while our heat procurement cost was approximately RMB181.1 million, RMB199.0 million, RMB312.8 million and RMB228.1 million, representing approximately 24.9%, 21.6%, 25.7% and 61.1% of our total cost of sales for the same periods, respectively.

Our Heat Production

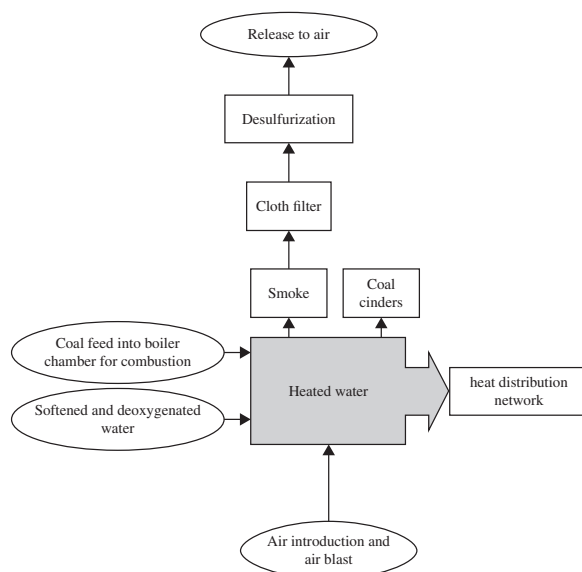
Heat Production Facilities

During the Track Record Period, our heat production by coal-fired boilers was mainly through 17 coal-fired boilers stationed in four regional locations within Changchun. Upon the expiration of the heat supply period in April 2018, we discontinued our heat production by coal-fired boilers and all of the heat demand will be satisfied by heat procurement from the local cogeneration plants going forward. As such, the boilers were not transferred to our Group during the Reorganization. For more information, please refer to the section headed “History, Development and Reorganization – Reorganization” in this prospectus. The change is primarily

due to reasons including (i) all of the heat demand is met through our heat procurement from local cogeneration plants following the commencement of operation of No. 5 Cogeneration Plant; (ii) according to the Frost & Sullivan Report, heat generated by cogeneration plants is considered more stable, economic and clean compared to heat produced by coal-fired boilers; and (iii) the local policies favor the utilization of clean energy which causes a lower level of air-pollutant emissions in terms of heat source and Changchun municipal government encourages phasing out coal-fired boilers progressively.

Heat Generation Process

Through combustion of fuel coal with air introduction and air blast, the boilers heat up softened and deoxygenated water that was pumped in. The hot water is then pumped to the heat distribution network which is a close circulation to allow hot water to eventually reach the end-users' indoor heating equipment and release heat to warm up rooms. The flow chart below illustrates a simplified production process of our heat production by coal-fired boilers.



Raw material and inventory management

We primarily procure coal, electricity and water for the heat produced by coal-fired boilers. We procure electricity and water from the local public utility companies for heat generation, heat distribution as well as our daily operation. During the Track Record Period, we have not experienced any material shortage of electricity and water supply which may have a material impact on our operation.

Coal was the primary raw material used for the heat production by coal-fired boilers. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we purchased coal for approximately 306,219 tons, 350,703 tons, 234,285 tons and nil, respectively. For the same period, our coal cost was approximately RMB116.7 million, RMB160.0 million, RMB114.8 million and nil, respectively. The coal cost in 2018 decreased substantially compared to 2017 and 2016 since we completely ceased the heat production in April 2018 and thus ceased our coal procurement since then.

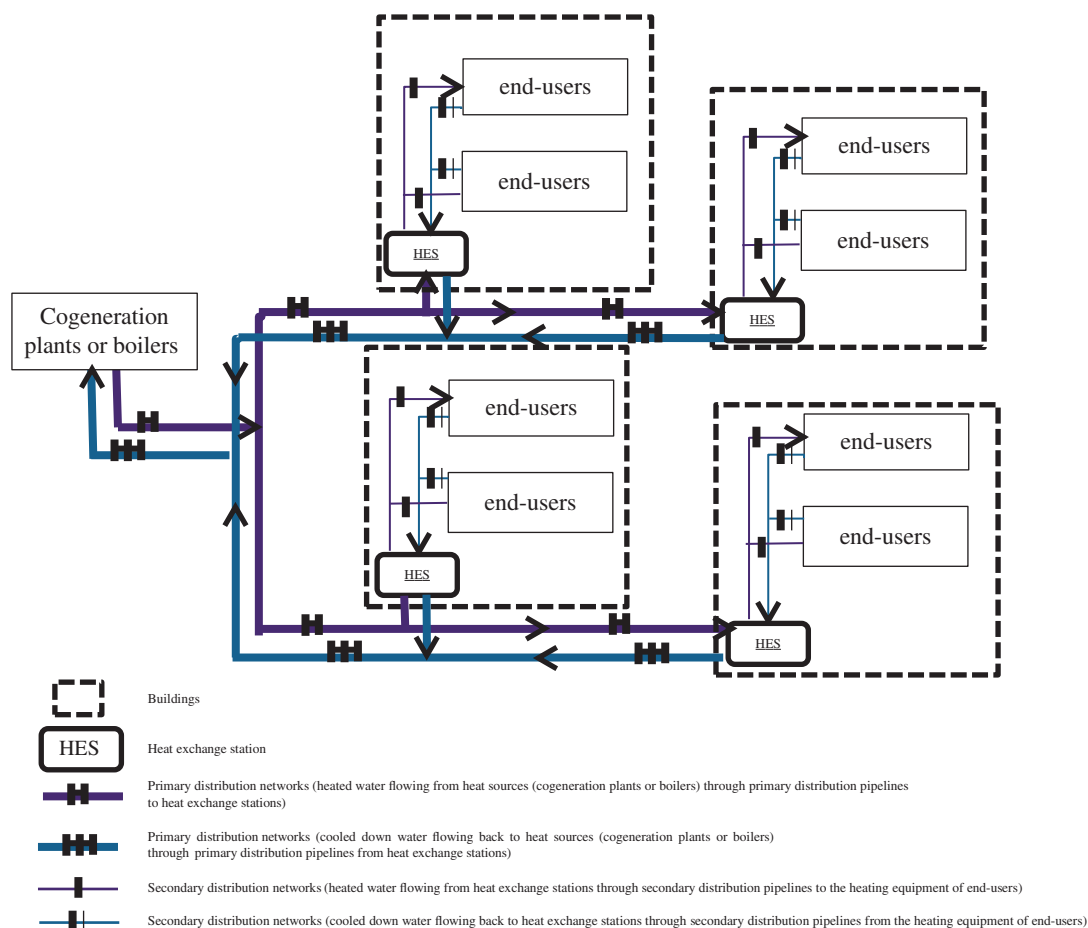
We obtained coal from coal suppliers based in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the number of coal suppliers was seven, six, four and nil, respectively. We were able to source raw materials from alternative suppliers should the need arise and we did not enter into long-term agreements or framework agreements with any raw material suppliers.

Typically, we purchased coal from one to two months in advance of the actual production. The amount purchased will be determined based on the existing inventory and estimated production requirement. We usually maintained a minimum level of coal inventory which met the heat generation needs for a period of up to two weeks. We were not required to purchase a minimum quantity of coal. The coal suppliers were responsible for transporting the coal to us and paying the related transportation costs.

Heat Distribution Network

The entire heat supply process starts from the heated water of a high temperature from the heat sources (i.e. cogeneration plants or boilers) flowing into our own primary distribution networks. To ensure that the temperature of the water is suitable for living purpose, various heat exchange stations were set up in the heat service area to transfer heat from high temperature water in the primary distribution networks to relatively cooler water in the end-users' pipeline networks through heat exchangers (換熱器) installed in heat exchange stations. The water at a suitable temperature in the secondary distribution networks flows to the end-users' heating equipment and to ensure that the end-users' room temperature is maintained at an appropriate level. After passing through the secondary distribution networks, the water is cooled down and flows back to the heat exchange stations for heat exchange. Circulation pumps are also installed in these heat exchange stations to facilitate the circulation of water.

The diagram below sets out a flow chart of the heat supply:



Primary Distribution Pipeline

Within our heat service area, our heat distribution network primarily consists of our own primary distribution pipelines. Construction of primary distribution pipelines usually require a significant initial investment and thus it is one of the entry barriers for competitors entering into a particular heat service area. Primary distribution pipelines refer to the pipeline system and the circulation therein connecting the heat sources to the heat exchange stations. The pipeline system and the circulation therein connecting the heat exchange stations and end-users' outdoor valve wells is known as the secondary distribution pipelines.

We own the proprietary rights of our primary distribution pipelines and we are responsible for their maintenance. Subject to the contractual arrangements with the property developers and/or property management companies, we may also be responsible for the maintenance of secondary distribution pipelines if we so agree. In addition, the equipment and facilities connecting the end-users' outdoor valve wells and their indoor heat equipment, such as heat radiators, are usually owned and maintained by the end-users themselves.

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The useful life of our primary distribution pipelines varies depending on their quality and usage. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, approximately 1.9 kilometers, 3.0 kilometers, 3.1 kilometers and nil of our primary distribution pipelines aging from 11 years to 19 years were replaced. According to the Frost & Sullivan Report, the useful life of primary distribution pipelines generally ranges from 15 years to 20 years in the industry. The table below sets out a breakdown of our primary distribution pipelines by age group as at the Latest Practicable Date.

Years of usage	Length (kilometers)
1-15	362
16-20	42
Over 20	149
Total	<u>553</u>

Heat Exchange Station

For the purposes of providing our heat supply, for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we occupied 417, 448, 466 and 466 heat exchange stations where we install and operate certain equipment and machinery. These heat exchange stations are typically constructed by the property developers or owners of the buildings within our heat service area and are typically situated in the common areas of these buildings. While we do not own or construct the heat exchange stations, we are licensed to use them to install and operate heat exchange equipment which we own for the purpose of our heat supply when the buildings are connected to our heat distribution network by the developers or owners. Such equipment mainly includes heat exchangers, circulation pumps, make-up water pumps, strainers, water tanks and electrical control cabinet. Pursuant to Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), no organization or individual (except for governmental authorities) may damage, demolish or move the heating facilities without proper authorization. Therefore, we believe the safety of our equipment installed in the heat exchange stations can be secured.

As of 31 March 2019, we used 466 heat exchange stations in Changchun and over 60% of these stations in terms of number and heat service area they served were with users' title defects, i.e., we were unable to enter into free use agreements with the proper owners who possess the relevant title certificates of the heat exchange stations. For more information about the reasons of the title defects, risks and potential legal consequences, please refer to "– Properties – Users' Title Defects associated with the Heat Exchange Stations which we used" in this section and the section headed "Risk Factors – We are subject to potential adverse consequences due to users' title defects associated with certain heat exchange stations we use to install heat exchange equipment, which may materially and adversely affect our heat supply business" in this prospectus. Having reviewed the PRC legal opinion prepared by our PRC

Legal Advisers and based on our remedial measures taken, our Directors are of the view that the risks arising from the users' title defects did not, individually or collectively, have and will not have a material adverse impact on our business operations, financial conditions and results of operations.

Integrated Heat Distribution Network

We have undertaken various distribution network improvement works. In September 2016, we extended our distribution pipelines to connect the primary distribution system of No. 2 Cogeneration Plant and No. 4 Cogeneration Plant. We also extended our distribution pipelines to connect the primary distribution system of No. 2 Cogeneration Plant and No. 5 Cogeneration Plant in October 2017. Since then, our heat distribution network becomes an integrated system. Each cogeneration plant is able to serve as a back-up heat source in the event that others experience production disruption or suspension. An integrated heat distribution network provides an important security for our continuous heat supply and reflects our strategies in terms of heat service area expansion based on the current urban heat supply market layout.

During the Track Record Period and up to the Latest Practicable Date, our heat distribution network covers the inner urban areas of Changchun, including Chaoyang district (朝陽區), Nangan district (南關區), Lvyuan district (綠園區), Kuancheng district (寬城區), Jingyue district (淨月區) and Erdao district (二道區).

The map below illustrates our heat distribution network as at the Latest Practicable Date.

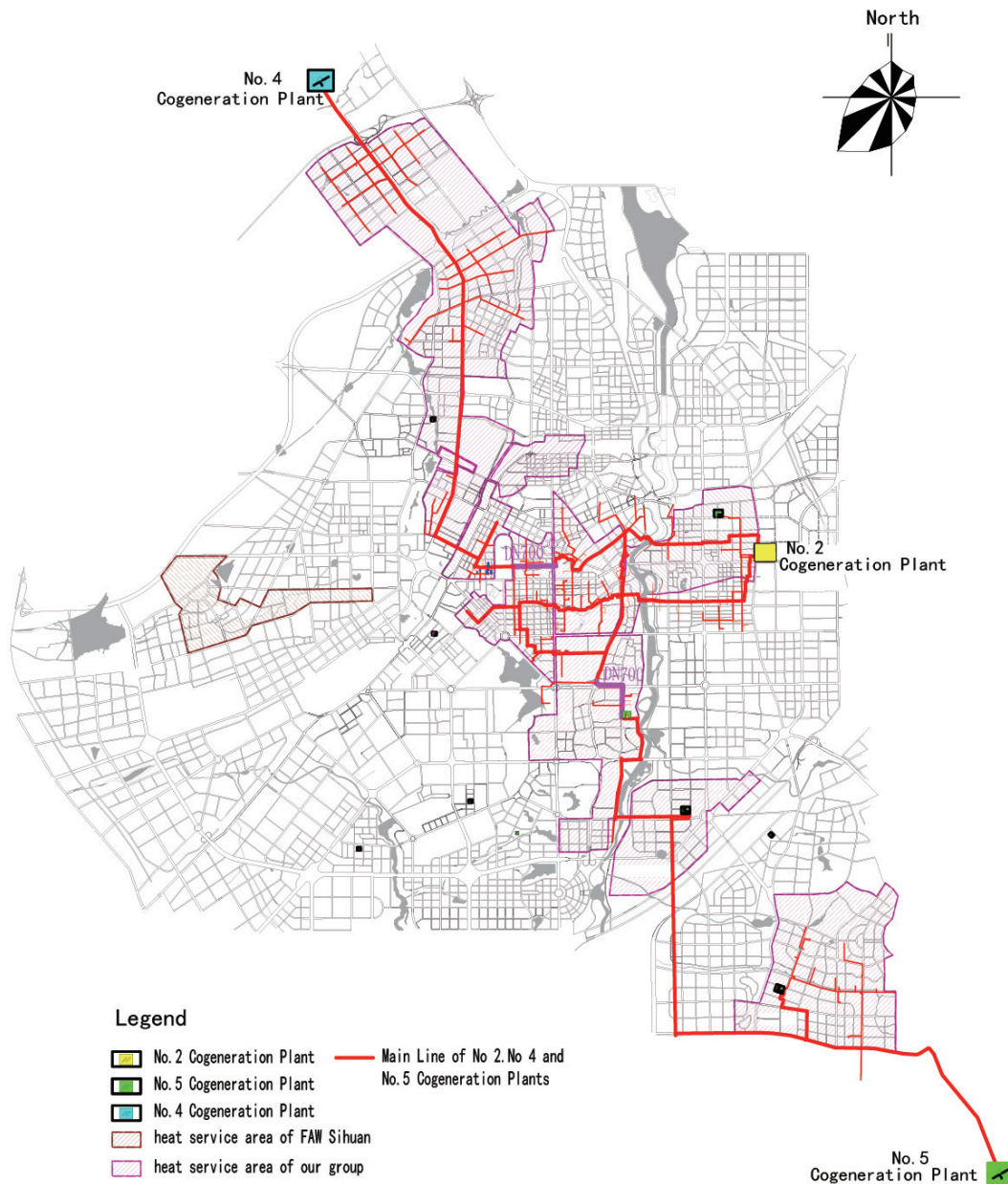


Diagram of the Heat Service Area of our Group in Changchun city

Heat Service Area

Our heat service area is subject to the overall municipal planning, and we are as a matter of fact the sole heat service provider within our existing heat service area. We always seek to become the sole heat service provider whenever there is new heat service area available during the local government's overall planning process. To capture the potential opportunities, we generally initiate communications with the local government and submit certain materials and information to the local government so as to demonstrate our capabilities and commitment to

heat supply. Based on our experience in heat supply, we believe that we are well-equipped to be authorized by the local government to operate in a particular heat service area, in light of our competitiveness in the market which is supported by (i) our connection to the three cogeneration plants and the heat procurement quota available to us; (ii) the coverage of our primary distribution pipelines; (iii) our integrated heat distribution network; (iv) our ability to expand our operational scale based on the foregoing; and (v) our expertise, experience and reputation in heat supply. With our efforts as described above, our heat service area increased year over year during the Track Record Period.

The growth of our heat service area was also attributable to (i) organic growth of heat service areas driven by urbanization, including the construction of new real estate projects; (ii) requests from end-users whose heat service areas are originally covered by boiler plants for connection to our heat distribution network; and (iii) obtaining the heat service areas which are released from the coverage of phased-out boiler plants.

As at 31 March 2019, our heat service area was approximately 38.5 million sq.m., and our active heat service area for which we charged the full amount of the heat fees was approximately 31.4 million sq.m.. For the rest of the heat service area, which was approximately 7.1 million sq.m., representing approximately 18.4% of our total heat service area, we charged 20% of the heat fees since the heat supply therein was suspended prior to the heat supply period under our approval as initiated by the end-users. For more details about pricing of our heat supply service, please refer to the paragraph headed “– Sale of Heating – Pricing” below in this section of this prospectus.

Sale of Heat

Customers

Our customers are residential and non-residential end-users located within our heat service area. During the Track Record Period, we had maintained a broad customer base within our heat service area. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had 258,098, 284,750, 306,966 and 306,966 customers, respectively. Our heat supply top ten customers are generally universities, hospitals, property developers and property management companies.

Currently, we generally sign long-term agreement with our end-users. For new residential properties, the property developers are treated as our customers since they are required to pay us heat fees for the entire properties’ heat supply gross floor areas for the first heat supply period falling within the year when properties are delivered to residents. For new properties connecting to our heat distribution network, we charge a one-off pipeline connection fee based on the gross floor area shown on their blueprints, land use rights certificates or our own surveying result in absence of the land use rights certificates.

BUSINESS

We generally adopt Jilin Province municipal heat supply contract form jointly produced by Jilin Bureau of Housing and Urban-Rural Development (吉林省住房和城乡建设廳) and Jilin Administration for Industry and Commerce (吉林省工商行政管理局) when we enter into heat supply contracts with end-users and fill in specific information where appropriate, such as heat supply address, heat service area and heat supply period. The key terms of our heat supply agreements with end-users are set out below:

Address, heat service area and heat consumption	The heat supply contract specifies the end-user's address and heat service area. Heat service area is determined by the gross floor area specified in the building ownership certificate of a particular area thereunder. For non-residential end-users, the heat supply contract also specifies heat consumption per hour.
Heat supply period and quality	We are required to provide heat during the heat supply period between October to the following April and to comply with certain heat supply quality, according to relevant laws and regulations.
Heat rate and settlement	Heat rate approved by the relevant authority should apply. We usually require end-users to make full prepayment of the heat fees prior to the commencement of heat supply period.
Heat service provider's rights and obligations	We have the right to inspect and monitor heat supply condition and operation of end-users' heat supply equipment. We also have the right to request end-users to cease their unauthorized usage or violation of the relevant procedures which causes imbalance in heat supply. We may suspend heat supply in the event that end-users' heat supply equipment are, or may potentially be, unsafe, or end-users refuse to pay our heat fees. If malfunctioning in our heat supply equipment occurs and causes heat supply interruption or suspension for over eight hours, we should inform end-users and arrange for emergency repair. We are required to inform end-users in advance if interruption of heat supply is unavoidable due to ad hoc heat supply equipment inspection and maintenance or other reasons. For interruption due to force majeure, we should timely arrange for emergency repair and inform end-users of the situation.

BUSINESS

End-user's rights and obligations	End-users are responsible for the maintenance and repair of their own heat supply equipment and for payments of heat fees. End-users may apply for making amendments to the heat supply contract with us, such as reduction in heat consumption volume, name of end-user, nature of usage, suspension or termination of heat supply and address.
Default	We are required to refund the heat fees and subject to liquidated damages at 5% of the heat fees if we fail to meet the heat supply quality or fail to supply heat during the heat supply period specified in the contract, or responsible for damages if end-users suffer loss due to heat supply accidents caused by us. However, we are not responsible for damages if (i) end-users alter interior structure or indoor heat supply equipment; (ii) improper interior decoration or insulation measures affect heat supply quality; (iii) heat supply suspension is caused by suspension of water or electricity supply; or (iv) our heat supply equipment require normal inspection, repair or are under trial operation. End-users are responsible for damages if their heat supply equipment experience malfunction and end-users fail to inform us in time, which result in our losses.

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, revenue generated from provision and distribution of heat to residential end-users accounted for approximately 65.9%, 66.3%, 66.5% and 66.9% of the total revenue of our heat supply, respectively. For the same periods, revenue generated from provision and distribution of heat to non-residential end-users accounted for approximately 34.1%, 33.7%, 33.5% and 33.1% of the total revenue of our heat supply, respectively.

BUSINESS

The table below sets out a breakdown of number of customers and revenue contribution by residential end-users and non-residential end-users in terms of provision and distribution of heat as at the dates and for the periods indicated.

	As at/for the year ended 31 December				As at/for the three months ended 31 March			
	2016		2017		2018		2019	
	% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat		% of revenue from provision and distribution of heat	
	number of customers		number of customers		number of customers		number of customers	
Residential end-users⁽¹⁾	227,126	65.9%	250,580	66.3%	270,130	66.5%	270,130	66.9%
Non-residential end-users⁽²⁾	30,792	34.1%	34,170	33.7%	36,836	33.5%	36,836	33.1%
Total	<u>258,098</u>	<u>100.0%</u>	<u>284,750</u>	<u>100.0%</u>	<u>306,966</u>	<u>100.0%</u>	<u>306,966</u>	<u>100.0%</u>

Notes:

- (1) The number of residential end-users refers to the number of households.
- (2) Non-residential end-users include commercial end-users and other end-users which primarily include industrial end-users and underground parking space end-users.

Pricing

Heat Rate

According to the PRC Pricing Law, the PRC Government may direct, guide or adjust the prices of public utilities. Local government authorities, upon approval from the local municipal government, set the benchmark heat rates which are subject to adjustments due to various reasons, such as fluctuation in coal price, inflation and other local factors, after considering the opinions of different stakeholders including the heat supply end-users and heat supply enterprises like our Company. Pursuant to the relevant local regulations, retail price varies under residential and non-residential end-users categories. Effective from the heat supply period of 2015-2016, heat rate in Changchun is RMB27 per sq.m. for residential properties, RMB34 per sq.m. for commercial properties and RMB31 per sq.m. for other properties, respectively, according to Changchun Municipal Government's Notice on Heat Rate Adjustment in Changchun City (《長春市人民政府關於調整長春市城區供熱價格的通知》(長府發[2015]21號)). Furthermore, pursuant to Notice on Adjustment on Heat Rate for Services Industry in Changchun City (《關於調整長春市城區服務業供熱價格的通知》(長發改價格聯[2016]267號)), heat rate for commercial properties is reduced from RMB34 per sq.m. to RMB31 per sq.m. commencing from the heat supply period of 2016-2017. Pursuant to the relevant laws and regulations, certain pricing policies apply under several particular

circumstances. For example, end-users who obtain our approval of the heat supply suspension are only required to pay 20% of the fees for the entire annual heat supply period. Heat rate of the underground parking space in the public areas is 50% of that for commercial properties, i.e., RMB15.5 per sq.m. In addition, we are permitted to charge additional heat fees for properties with extra high ceilings. Please refer to the section headed “Regulatory Overview – Heat Supply – Pricing” in this prospectus for more details. We have used new and emerging payment methods apart from the traditional payment arrangements for the convenience of our heat supply end-users, such as online bank payment, WeChat Pay and Alipay.

The heat procurement price determined with the local cogeneration plants is subject to a benchmark price approved by the national and local pricing bureaus, taking into account the cost (mainly include the coal, water, electricity consumption cost and environmental cost) and reasonable profits of the cogeneration plants and the interests of the heat supply companies and the end-users. However, there may exist a time gap between the increase of heat procurement prices and heat rate by the relevant government authorities. As a result, we may not be able to transfer our increased costs due to an increase in the heat procurement price to our heat supply end-users. Therefore, our operating results may be adversely affected in the event of an increase of heat procurement prices. For more details, please refer to “Risk Factors – Risks Relating to Our Business – We do not have control over the pricing of heat supply (both heat procurement price with cogeneration plants and heat rates charging end-users) and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost” for more details.

Pipeline Connection Fee

The pipeline connection fee is a one-off charge. According to the Price Bureau of Jilin Province, the upper limit of the pipeline connection fee for the new end users of Changchun, which was set in 2003, remained at RMB50 per sq.m from 2013 to 2017. However, pursuant to the Notice of the Jilin Provincial Price Bureau on the Cancellation of Construction Fees for Centralized Heat Supply Pipeline Networks (《吉林省物價局關於取消集中供熱管網建設費的通知》), the charging item for construction fees for centralized heat supply pipeline networks has been canceled effective from 17 October 2018. For more information, please refer to the section headed “Industry Overview – Heat Source and Municipal Heating Price” and “Regulatory Overview – Heat Supply – Pricing” in this prospectus. Accordingly, we may negotiate with our end-users on the rate of pipeline connection fee without being subject to any upper limit.

Credit policy

During the Track Record Period, we implemented a heat fee policy which requires heat supply end-users to make full payment of the annual heat supply bills for the entire heat supply period on or before the first day of heat supply period. As an exception, we allow a limited number of large end-users such as governmental institutions and universities for a payment period ranging from one to three months as these end-users have a good credit history. This

arrangement is also for the reason that those governmental institutions and universities rely on the annual government subsidy to pay the heat fees which is only granted a few months subsequent to the commencement of the heat supply period. Our fee policy is consistent with the requirements under the relevant laws and regulation and is in line with industry practice. We intend to continue our implementation of such fee policy. We believe that our exposure to the risks relating to credit control is remote.

End-user Management

We have established a comprehensive database to manage our end-users, such as basic personal information, heat service area and payment status. The information is updated from time to time upon our approval of the end-users' application for heat supply related services, including among others, confirmation of heat fees, heat supply deferral, suspension, termination and restoration, connection and/or disconnection to the heat distribution network. Subject to our approval, our end-users may apply for a suspension of heat supply for an entire heat supply period for one year or consecutive years.

Customer Services

Consistent with our philosophy of "Optimizing Heating Business", we provide extensive customer services to our heat supply end-users. We have established an end-user service system to handle various requests from our end-users, so as to standardize and streamline our heat supply services. The end-user service system is open for complaints and service requests in real-time via 963963 customer service hotline. In addition, end-users may also lodge their services requests via 12345 municipal service hotline, 12319 urban construction service hotline, WeChat public account and other incoming letters and visits. In addition, we are able to timely process the requests, provide feedback and follow-up visits.

Recording of requested services	The reception personnel inputs various information relating to the requested services.
Responding to requests	We confirm the requests within ten minutes of receiving the same. For general requests, we aim to respond to end-users within 30 minutes from confirmation with respect to making an appointment regarding on-the-spot services which will be completed within 48 hours. For emergency cases, we aim to arrive in fields and complete the requested services within 24 hours.
Internal Reporting and Review	The details of handling the requests should be reported and recorded in our end-user service system. The reports should be reviewed by our customer service center staff.

BUSINESS

Follow-up visit	Customer service center arranges follow-up visit to the end-users who request the services and if the results are unsatisfactory, we will arrange follow-up services to fix the issues.
Overall assessment	Each of the key steps involved in our customer services is subject to an overall performance assessment through data analysis in our end-user service system.

In addition, our staff is on duty 24 hours a day during heat supply periods to provide necessary services to end-users, respond to end-user inquiries, process maintenance request, complaints and in-room temperature verification.

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we received complaints from our end-users at a rate of 0.09, 0.14, 0.19 and 0.12 cases for every 10,000 sq.m. of heat service area, respectively. According to Frost and Sullivan, our rate of complaints during the Track Record Period was well below that of average level in the industry in Changchun, which was 0.10, 0.18 and 0.27 cases for every 10,000 sq.m. of heat service area in Changchun for the years ended 31 December 2016, 2017 and 2018, respectively. Most of the complaints received were related to alleged in-room temperature being lower than 18°C. We have taken adequate measures to respond to these end-users' complaints and all of the problems identified have been properly resolved during the Track Record Period and up to the Latest Practicable Date. We will continue to enhance our customer services and heat supply quality.

Quality Control

We are committed to providing high quality heat supply to our customers. We also strictly comply with government regulations on heat supply safety and emergency response requirements. We monitor every key step involved in our heat supply to ensure conformity with specific requirements under the local regulations. Pursuant to Changchun Municipal Heat Supply Management Measures (《長春市城市供熱管理辦法》), for residential end-users, day and night average room temperature (including that in living rooms and bedrooms) should not be lower than 18°C with heat supply. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any administrative penalties due to non-compliance with the above requirements. In December 2015, we established a quality control team consisting of ten members at various positions. Our quality control team is primarily responsible for monitoring our customer service quality and streamlining the procedures in providing our services. Our quality control team was recognized as “2017 Jilin Province Outstanding Quality Management Team” (2017年吉林省優秀質量管理小組) by Jilin Province Quality Control Association and was named as “2017 National Outstanding Quality

Management Team” (2017年全國優秀質量管理小組) jointly by China Association for Quality (中國質量協會), All-China Federation of Trade Unions (中華全國總工會), All-China Women’s Federation (中華全國婦女聯合會) and China Association for Science and Technology (中國科學技術協會).

Smart Heating Network System

To continuously improve our heat supply quality, effectiveness and efficiency, we have established our smart heating network system which is recognized as a leading system in heat supply industry by China Urban Heating Association (中國城鎮供熱協會). The construction of this system was carried out in three phases: (i) in 2016, we entered into a cooperation agreement with Tongfang Co., Ltd. (同方股份有限公司) to co-develop an advanced control system with automation and intelligent features which can among other things, adjust in-room temperature according to human comfort and the surrounding environment (the function of adjusting in-room temperature has only been implemented in some of the households which have installed our in-room thermometers. For details, please see the paragraph headed “– Smart Heating Network System – Real-time Operation Monitoring” below in this section of this prospectus); (ii) improvement work following phase one under a cooperation with Hebei Gongda Keya Energy Technology Co., Ltd., (河北工大科雅能源科技股份有限公司) in 2017 and continued cooperation with it to further develop intelligent statistical analysis based on the achievement obtained in phase two. We completed the construction of our smart heating network system in October 2018 and will continue its upgrade going forward.

Our smart heating network is a system consisting of a combination of sensors, meters, automated equipment, surveillance and other hardware and algorithms. Through the smart heating network system, we are able to achieve at our control center (i) real-time operation monitoring which enables us to reduce manpower requirement; (ii) equipment remote control which enables us to reduce manpower requirement and minimize human error; (iii) operating data collection and analysis which ensures the accuracy and safety of our operation; and (iv) automated output adjustment and problem solving proposals which allows energy saving and ensure safe operation.

Real-time Operation Monitoring

All of our heat exchange stations are equipped with surveillance system to monitor the actual condition of the equipment to ensure stable and safe operation. Our real-time monitoring system operates 24 hours a day to monitor whether the operating data, such as water temperature, circulation pressure and heat loss rate, collected at local cogeneration plants, boilers, pipelines and heat exchange stations is within a reasonable range.

As part of our initiatives to better monitor our end-users’ in-room temperature, we launched our in-room temperature data collection program since June 2018. As at the Latest Practicable Date, more than 1,500 households had installed our in-room thermometers to monitor and control in-room temperature.

Remote Control

Our smart heating network system is equipped with a remote control system, through which we are able to control and/or adjust the operation of our equipment, such as the circulation pumps, the booster pumps and the water supply pumps. The remote control system has also installed pre-set modes to allow automated controls.

Data Collection and Analysis

For the purposes of an overall assessment of the heat supply, we compare the data we have access via our real-time monitoring system with historical operating data as well as the benchmark figures specified by legal and industrial standards.

Automated Output Adjustment and Problem Solving Proposals

In case where heat operating data fluctuates significantly or suggests insufficient or unstable heat supply, we will promptly analyze the possible causes and adjust the heating parameters of each heat exchange station through our smart heating network system to resolve the problems. Automated output adjustment shall apply to address the issues in the first place. Should there be any facility and equipment breakdown or any malfunction that result in abnormal operation, we will also deploy a team for on-site inspection and take on counter measures to calibrate or repair.

Reporting and Emergency Response Plan

We have adopted an effective emergency response plan to ensure continuous and quality heat supply and minimize the risks associated with emergencies thereunder.

We take different emergency responses according to the seriousness and the scale of the suspension of heat supply. For a partial or full suspension of heat supply due to a breakdown in the heat source of the electricity and heat cogeneration plants, the production department will make overall adjustment to the heat source. In extreme cases, we will adopt rotational heat supply by time segment and region or heat supply with lower temperature in the secondary distribution networks. For suspension of heat supply due to the shortage of water and electricity supply, we will provide temporary internal resources by emergency water supply vehicles and other power stations. If the suspension of heat supply lasts for more than 12 hours, measures for insulation of the heat supply facilities should be taken. If the suspension of heat supply lasts for more than 48 hours, a public announcement shall be made. If the suspension of heat supply lasts for more than 72 hours, water will be discharged from the pipelines to protect the heat supply facilities. Our Directors confirm that we had not experienced such suspension of heat supply which lasted for more than 48 hours during the Track Record Period and up to the Latest Practicable Date.

In addition, we give support from personnel, resources and communication aspects when handling heat supply emergencies. Each of our heat supply branches shall set up a professional emergency rescue team and maintain the emergency rescue devices. Upon resolving an emergency incident, the emergency command department shall immediately organize on-site cleaning and production recovery work, followed by a comprehensive evaluation. The emergency command department shall carefully analyze the cause of the breakdown, formulate and supervise the implementation of improvement measures, and regularly organize acceptance testing. Each of the heat supply related units shall conduct emergency drills before commencement of operations under specific requirements.

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we had recorded four, five, one and nil incidents, or 0.12, 0.14, 0.03 and nil incidents per million sq.m. of heat service area, resulting from boiler failures, slag removal machine breakdown, water and electricity supply suspension, primary distribution pipelines leakage which had caused heat supply disruption and took us more than eight hours to resolve. However, we were able to resolve all incidents within 15 hours from the occurrence of disruption. According to Frost and Sullivan, our heat supply disruption rate for incidents which took more than eight hours to resolve during the Track Record Period was well below the average among the heat supply industry leaders in Changchun, which was 0.15, 0.15 and 0.10 incidents per million sq.m. of heat service area in 2016, 2017 and 2018, respectively. During the Track Record Period, we had fully discharged our obligations in terms of reporting to the authority and informing end-users under the laws and regulations, as the case may be, and we were not subject to any compensation to the end-users due to heat supply disruption or suspension. Our Directors confirm that we had not experienced heat supply interruption and suspension which had a material adverse impact on our business operation during the Track Record Period and up to the Latest Practicable Date.

Machinery, Maintenance and Repair

Our heat supply processes mainly rely on our primary distribution pipelines and the heat exchange system. Each heat exchange system typically involves heat exchangers, circulation pumps, make-up water pumps, strainers, water tanks and electrical control cabinet. The heat exchange system is subject to annual inspection, maintenance and repair and is scheduled for major maintenance and repair every three to four years.

Our in-house maintenance personnel is typically responsible for routine and ordinary maintenance and repair work. However, maintenance and repair projects which are complex in their nature and require specific expertise are undertaken by our subsidiary Changre Maintenance or third party professional maintenance and repair service providers if necessary. We have a dedicated team to ensure normal heat distribution as well as emergency response. Our major maintenance and repair are typically carried out from April to October every year. We maintain schedules and procedures for routine maintenance, inspection and repairs and our primary distribution pipeline is subject to maintenance and repair throughout the year. The maintenance and repair plan is formulated based on the condition of the heating facilities and equipment of the previous heat supply period. We are also equipped with 16 special vehicles such as heavy-duty special operation trucks (重型專項作業車) and wheel excavation machinery (輪式挖掘機械) which can be dispatched for rescuing and repair. As part of our

maintenance and repair, we usually schedule the replacement of our primary distribution pipelines according to its condition. We generally engage contractors to carry out replacement required. Our total maintenance and repair expenses for heat supply for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019 were approximately RMB118.2 million, RMB63.0 million, RMB61.3 million and RMB1.7 million, accounting for approximately 16.2%, 6.8%, 5.0% and 0.5% of the total cost of sales for the same periods, respectively.

We launched our circulation pump improvement project which aimed at reducing the level of electricity consumption at the circulation pumps. The circulation pump improvement project involved 30 heat exchange stations and 36 sets of heat exchange system installed in these heat exchange stations. We completed the installation of these heat exchange systems in October 2018.

Investment in FAW Sihuan

During the Reorganization, investment in FAW Sihuan, a joint venture incorporated in October 2008 between our Controlling Shareholder and Changchun FAWSN, was transferred to our Group. During the Track Record Period and up to the Latest Practicable Date, we held 50% interest in FAW Sihuan. Under the articles of association of FAW Sihuan, any transfer of all or part of equity interest in the joint venture by one party to a third party is subject to the majority consent of the other joint venture partners. When one party assigns all or part of its equity interest, the other parties shall have a pre-emptive right of purchase. When one party assigns its equity interest to a third party, the terms shall not be more favourable than those offered to the other parties to the joint venture.

FAW Sihuan is a heat service provider primarily engaged in heat production, supply and sale. FAW Sihuan is mainly responsible for the heat supply for FAW Sihuan Industrial Park, certain residential areas as well as offices. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the heat service area of FAW Sihuan was approximately 2.6 million sq.m., 2.9 million sq.m., 3.0 million sq.m. and 3.0 million sq.m., respectively. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our share of profits and losses of FAW Sihuan was nil, nil, RMB1.5 million and RMB2.7 million, respectively.

Seasonality

Heat supply is subject to seasonality due to its business nature. Also, pursuant to the relevant laws and regulations, heat supply period was from October of each year to April of the following year. Heat service providers like us are prohibited to postpone or early terminate the heat supply. Heat supply is also affected by the overall weather condition during winter seasons. For risks relating to seasonality, please refer to the section headed “Risk Factors – Our business experiences seasonality. As a result, our quarterly or periodical performance may not be an indicator of our performance” in this prospectus.

BUSINESS

CONSTRUCTION, MAINTENANCE AND DESIGN SERVICES

Leveraging on our extensive experience and reputation in the heat supply business, we have established our strong capabilities of offering construction, maintenance and design services. Our construction, maintenance and design services include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. The footprints of our construction, maintenance and design services mainly cover northeast China. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, revenue generated from our construction, maintenance and design services was approximately RMB66.4 million, RMB253.6 million, RMB500.6 million and RMB61.4 million, representing approximately 7.8%, 22.9%, 34.8% and 11.2% of our total revenue, respectively. Our construction, maintenance and design services are subject to various PRC laws and regulations. For more information, please refer to the section headed “Regulatory Overview” in this prospectus.

The table below sets out details with respect to our construction, maintenance and design services for the periods indicated.

	For the year ended 31 December				For the three months ended 31 March			
	2016		2017		2018		2019	
		% of		% of		% of		% of
		revenue from		revenue from		revenue from		revenue from
		construction,		construction,		construction,		construction,
		maintenance		maintenance		maintenance		maintenance
		and design		and design		and design		and design
	RMB'000	services	RMB'000	services	RMB'000	services	RMB'000	services
Revenue generated from construction, maintenance and design services⁽¹⁾								
Engineering construction	57,883	87.2%	208,547	82.2%	310,928	62.1%	44,626	72.7%
Engineering maintenance	1,989	3.0%	36,942	14.6%	173,063	34.6%	15,424	25.1%
Design services	5,534	8.3%	7,351	2.9%	16,051	3.2%	1,287	2.1%
Others ⁽²⁾	1,012	1.5%	732	0.3%	595	0.1%	68	0.1%
Total	66,418	100.0%	253,572	100.0%	500,637	100.0%	61,405	100.0%

Notes:

- (1) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and thus revenue generated from these services was eliminated on a consolidated basis. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.
- (2) Others include rental services and sales of goods.

Engineering Construction

We have started providing engineering construction services since May 2013. Changchun Runfeng has obtained eight key certificates and licenses to provide various engineering construction services. Our engineering construction capabilities include heating facility construction, pipeline installation, boiler installation, heat exchange station installation, heat facility maintenance and construction management. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, approximately 70%, 75%, 90% and 47.8% of our engineering construction projects were related to heat generation and supply business and the remaining projects were related to general municipal engineering, such as waste water discharge, road construction and water pipe construction.

Our contractual terms with customers mainly include two types of arrangements, namely (i) all-inclusive construction services under which we are required to procure all or a portion of raw materials necessary for the construction and bear the costs thereunder; and (ii) pure construction services. During the Track Record Period, the majority of our engineering construction services were all-inclusive construction projects. We had a small number of loss making all-inclusive construction projects and recorded losses in one, two, nil and nil all-inclusive construction projects amounting to approximately RMB5,946, RMB449,364, nil and nil for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. Please refer to the section headed “Risk Factors – Risks relating to our Business – We may be subject to losses and our profit margins may decrease if we fail to control our costs in performing our all-inclusive construction services” for details of the risks in relation to the potential losses of our all-inclusive construction services.

Under the construction agreement, payment is made by installments according to the actual work completed as certified by the customer and the supervising engineer. Usually 5% to 10% of our service fee is quality guarantee deposit as a means to provide quality guarantee for two heat supply seasons, during which, we will offer free repair for any quality problems.

We usually assign an on-site representative to supervise the performance of contract and build a designated project team consisting of technicians, engineers and construction personnel based on different characteristics and actual circumstances of a certain project. We are required by the contract to strictly follow the rules and procedures of construction, safety and security and environmental protection. Every step of the construction process is either guided or restricted by a certain plan or workflow such as the material and work force plan and construction description. When a step of the construction process is completed, it is not allowed to proceed to the next step until the last step has passed the inspection of the customer.

In certain heat supply related projects such as pipeline construction, we are required to meet the national and municipal quality standards in relation to heat supply network. To ensure that we meet such standards, we require all parts of the pipeline construction to be procured from qualified suppliers who can meet the national technical and quality standards. For more information, please refer to the paragraphs headed “– Construction, Maintenance and Design Services – Suppliers” in this section of this prospectus.

As at 31 March 2019, we had 23 qualified technicians providing engineering construction services. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our engineering construction services was approximately RMB57.9 million, RMB208.5 million, RMB310.9 million and RMB44.6 million, respectively.

Engineering Maintenance

We offer engineering maintenance services such as carrying out heating facility cleaning, installation, repair and maintenance as well as replacement for other heat service providers and end-users. Our wholly-owned subsidiary Changre Maintenance has obtained two key licenses for electromechanical, municipal and construction projects. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our engineering maintenance services was approximately RMB2.0 million, RMB36.9 million, RMB173.1 million and RMB15.4 million, respectively.

Design Services

We offer design services for construction projects mainly relating to the heat supply industry, such as designing and providing consultancy and technical services for construction projects of distribution networks, heat exchange stations, as well as boiler rooms. Our wholly-owned subsidiary Heating Engineering Design has obtained three key certificates and license to provide its services. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our design services was approximately RMB5.5 million, RMB7.4 million, RMB16.1 million and RMB1.3 million respectively.

Electrical and Instrument Maintenance and Repair

Since October 2017, we offer services of testing, maintenance and repair of instruments such as gauges, meters and variable-frequency drives. Our wholly-owned subsidiary Changre Electrical Apparatus has obtained three key certificates to provide its services. As at 31 March 2019, we had 16 employees providing electrical and instrument maintenance repair services.

Our Construction, Maintenance and Design Projects

Backlog

Backlog refers to the outstanding contract value that remains to be delivered under the signed contracts under our construction, maintenance and design services as at a certain date, assuming that our products will be delivered according to the terms of the contracts.

BUSINESS

The table below sets out the movement of backlog of our construction, maintenance and design projects by contract value during the Track Record Period and as at 31 March 2019:

				From 1 January 2019 to 31 March 2019
	2016 Contract Value ⁽¹⁾ <i>RMB'000</i>	2017 Contract Value ⁽¹⁾ <i>RMB'000</i>	2018 Contract Value ⁽¹⁾ <i>RMB'000</i>	Contract Value ⁽¹⁾ <i>RMB'000</i>
Opening outstanding contract value⁽¹⁾, as at 1 January				
– Engineering Construction	3,331	75,089	230,381	314,766
– Engineering Maintenance	550	609	14,284	4,477
– Design Services	794	1,741	8,988	13,902
– Electrical and Instrument Maintenance and Repair ⁽⁵⁾	–	–	–	–
Sub-total	4,675	77,439	253,653	333,145
Newly signed contract value⁽¹⁾ during the year/period				
– Engineering Construction	129,641	363,839	395,313	124,079
– Engineering Maintenance	2,048	50,617	163,256	46,879
– Design Services	6,481	14,598	20,965	804
– Electrical and Instrument Maintenance and Repair ⁽⁵⁾	–	–	–	–
Sub-total	138,170	429,054	579,534	171,762
Less: Contract value⁽¹⁾ of completed work during the year/period⁽²⁾				
– Engineering Construction	57,883	208,547	310,928	44,626
– Engineering Maintenance	1,989	36,942	173,063	15,424
– Design Services	5,534	7,351	16,051	1,287
– Electrical and Instrument Maintenance and Repair ⁽⁵⁾	–	–	–	–
Sub-total	65,406	252,840	500,042	61,337

BUSINESS

	From 1 January 2019 to 31 March 2019			
	2016 Contract Value ⁽¹⁾ RMB'000	2017 Contract Value ⁽¹⁾ RMB'000	2018 Contract Value ⁽¹⁾ RMB'000	Contract Value ⁽¹⁾ RMB'000
Closing outstanding contract value⁽¹⁾, as at 31 December/31 March 2019⁽³⁾⁽⁴⁾				
– Engineering Construction	75,089	230,381	314,766	394,219
– Engineering Maintenance	609	14,284	4,477	35,932
– Design Services	1,741	8,988	13,902	13,419
– Electrical and Instrument Maintenance and Repair ⁽⁵⁾	–	–	–	–
Sub-total	77,439	253,653	333,145	443,570

Notes:

- (1) Contract value excludes the VATs.
- (2) Contract value of completed work means the contract value of the work that has been completed and the revenue generated from such completed work has been recognized during the relevant audited year/unaudited period indicated for that particular service.
- (3) Closing outstanding contract value means the total contract value for the remaining work for that particular service before the percentage of completion of such contracts reach 100% as at the end of the relevant year or period indicated.
- (4) The contract value in the table above includes contracts entered into between us and external third party or related parties that are not within our Group (i.e. excluding contracts entered into between members of our Group on an intra-group basis). The revenue generated on an intragroup basis was eliminated upon consolidation of our Group's financials. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the closing outstanding contract value of the intra-group contracts was approximately RMB24.0 million, RMB11.3 million, nil and RMB2.3 million.
- (5) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and revenue generated from these services was eliminated on a consolidated basis thus the contract values for this service was not included in the table above. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.

BUSINESS

The table below sets out the movement of the number of our construction, maintenance and design projects by number of contracts during the Track Record Period and as at 31 March 2019:

	2016	2017	2018	From 1 January 2019 to 31 March 2019
Opening number of contracts, as at 1 January⁽¹⁾				
– Engineering Construction	4	4	9	17
– Engineering Maintenance	1	2	6	4
– Design Services	6	2	12	11
– Electrical and Instrument Maintenance and Repair ⁽⁶⁾	–	–	–	–
Sub-total	11	8	27	32
Number of newly signed contracts during the year/period⁽²⁾				
– Engineering Construction	33	25	43	1
– Engineering Maintenance	12	32	101	4
– Design Services	18	20	33	4
– Electrical and Instrument Maintenance and Repair ⁽⁶⁾	–	–	–	–
Sub-total	63	77	177	9
Less: Number of completed contracts during the year/period⁽³⁾				
– Engineering Construction	33	20	35	–
– Engineering Maintenance	11	28	103	–
– Design Services	22	10	34	3
– Electrical and Instrument Maintenance and Repair ⁽⁶⁾	–	–	–	–
Sub-total	66	58	172	3

BUSINESS

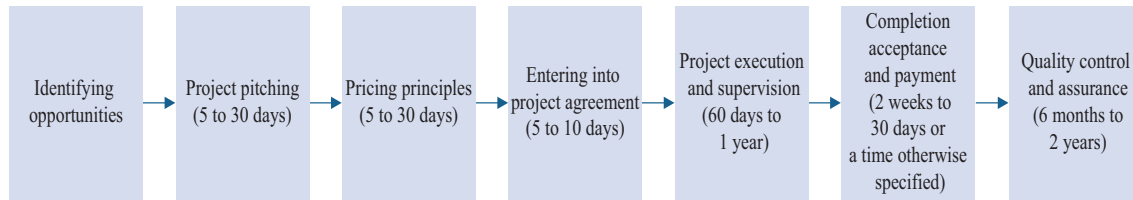
				From 1 January 2019 to 31 March 2019
	2016	2017	2018	
Closing number of contracts, as at 31 December/31 March 2019⁽⁴⁾⁽⁵⁾				
– Engineering Construction	4	9	17	18
– Engineering Maintenance	2	6	4	8
– Design Services	2	12	11	12
– Electrical and Instrument Maintenance and Repair ⁽⁶⁾	–	–	–	–
Sub-total	8	27	32	38

Notes:

- (1) Opening number of contract means the number of contracts where the percentage of completion had not reached 100% as of the beginning of the relevant year or period indicated.
- (2) Number of newly signed contracts means the number of contracts awarded to us during the relevant year or period indicated.
- (3) Number of completed contracts means the number of contracts where the percentage of completion reached 100% during the relevant year or period indicated.
- (4) Closing number of contracts means the number of contracts where the percentage of completion had not reached 100% as of the end of relevant year or period indicated.
- (5) The number of contracts in the table above includes contracts entered into between us and external third party or related parties that are not within our Group (i.e. excluding contracts entered into between members of our Group on an intra-group basis). The revenue generated on an intra-group basis was eliminated upon consolidation of our Group's financials. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the closing number of intra-group contracts was 3, 1, nil and 1.
- (6) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and thus revenue generated from these services was eliminated on a consolidated basis and the contract values for this service was not included in the table above. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.

Project Operation

The following flow chart summarizes the principal steps of our operations for our construction, maintenance and design services.



Identifying opportunities

Leveraging on our reputation in the heating industry, we are able to attract customers for our construction, maintenance and design services. We also receive customer referrals from time to time, allowing us to identify and seize business opportunities. In addition, we conduct regular market research on public bidding opportunities for construction, maintenance and design services projects. We regularly visit the website of construction bidding of Changchun and the website of tender and procurement of China and various bidding websites, to seek the tender information of projects for which our entities are qualified to bid, and then prepare budget for the potential projects, to seek market opportunities through the bidding process.

Project pitching

We conduct regular market research on public bidding opportunities for construction, maintenance and design services projects. Our customers may request us to prepare a tender or quotation for particular projects. In preparing the quotation or tender, we normally make reference to the prevailing market price as well as the specific requirements provided by the customer and information we collect based on our research.

Pricing principles	Our pricing principles for our construction, maintenance and design services are determined, and adjusted by the relevant head of pricing team and finance department based on the state prescribed or state recommended price, and due to changes of circumstances, and approved by the relevant business managers, taking into account our business targets, cost of relevant services such as costs for labor, raw materials, machineries, tools etc., as well as prevailing market rates, competitive condition and market demand. Under the pricing principles, we allow for certain level of flexibility in terms of price range as far as particular projects are concerned depending on the market conditions. We also appoint an authorized person to oversee the execution of pricing principles, including approving discount falling within the authorized power.
Entering into project agreement	If our quotation or tender submission is successful, our customers typically issue a letter of acceptance or enter into a project-based agreement with us after the scope of work and other terms are confirmed.
Project execution and supervision	Our project execution team is responsible for performing the project agreements. We usually commence preparatory works after entering into project agreements, such as formulating work plan and schedule, defining key milestones and technical requirements and site preparation. For construction work, we appoint a third-party qualified supervising company to monitor work quality and safety.
Completion, acceptance and payment	Upon receiving satisfactory testing results, we normally issue a certificate of practical completion indicating that the works we have completed for the project together with our invoice for the works done to our customers. We receive payment pursuant to the terms of each contract. Generally, we issue our invoice either upon completion of the project, or in accordance with the payment schedules stipulated in the relevant contract.

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Quality control and assurance	From the date of practical completion, the warranty period, which usually lasts for one or two years, commences and we are required to attend to matters raised to us during this period at our own expense. However, the warranty period is not specified in our design services contracts due to the nature of this business.
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Customers

During the Track Record Period, the customers of our construction, maintenance and design services are located within and outside Jilin Province. The industry in which the customers of our construction, maintenance and design services operate covers a broad range, including among others, heat supply, property development and civil construction. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we had 55, 52, 62 and 11 customers, respectively, of such services.

For the years ended 31 December 2017 and 2018 and the three months ended 31 March 2019, two of our main customers of our construction, maintenance and design services (which were the main contractors of the Three Supplies and Property Management Operations in connection with Shenyang Railway Bureau (瀋陽鐵路局) awarded by our Controlling Shareholder through a tender process) contributed to approximately 35.3%, 54.0% and 28.1%, respectively, of our total revenue in this business segment. Upon winning a separate and independent tender, we have become one of the subcontractors of these customers in these Three Supplies and Property Management Operations. Both tender processes were independent and not inter-conditional. Please refer to the section headed “Relationship with our Controlling Shareholder – Independence from our Controlling Shareholder” in this prospectus for details.

The table below sets out information relating to the background of our customers of our construction, maintenance and design services.

Background of customers

Engineering Construction	Construction companies, medical and financial institutions, government units and education institutions
Engineering Maintenance	Construction, heat service providers and agriculture companies
Design Services	Government units, public institutions, property developers, design consultancy companies, heat service providers
Electrical and Instrument Maintenance and Repair	Heat service providers

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We generally enter into written agreements with our construction, maintenance and design services customers. While the contractual terms may vary depending on the actual services to be rendered, the key arrangements are summarized and set out below.

Term	The terms of our agreements with our construction, maintenance and design services customers are generally subject to the requirements of each project as agreed upon between the customer and us.
Price	Generally, the written agreements either set out a fixed price for the project or an estimated price for the project, subject to final determination upon project completion.
Payment terms	Generally, our construction, maintenance and design services customers may be required to pay a specified amount of deposit upon signing of the agreement and prior to commencement of our work on the project, with the balance of the contract price to be made according to agreed stages of the project or upon completion of the project.
Quality warranty	We may offer a specified quality warranty period to our construction, maintenance and design services customers, except for design services.

Credit policy

The payment terms and credit policy with the customers of our construction, maintenance and design services are negotiable on a case-by-case basis. Generally, we allow for a payment period of 30 days to 90 days for certain major customers with good repayment history and reputation. We regularly and actively monitor and review the payment period for our customers.

Raw Materials

The key raw materials required for our construction, maintenance and design services, other than our design services, include steel, insulation materials, pipelines, valves, process equipment and electrical and instruments. During the Track Record Period, we sourced these raw materials from suppliers located in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our costs of materials for our construction, maintenance and design services were approximately RMB20.5 million, RMB56.3 million, RMB230.1 million and RMB23.5 million, representing approximately 2.8%, 6.1%, 18.9% and 6.3% of our total cost of sales for the same periods, respectively. During the Track Record Period, we had not experienced in raw material shortage for our construction, maintenance and design services.

Supplier

Our suppliers for our construction, maintenance and design services are mainly raw material and equipment manufacturers and/or trading companies as well as third-party labor service providers. We adopt a centralized procurement policy and have set strict criterion of our eligible suppliers. Each supplier is required to undergo a strict selection process before being approved by us, such as bidding, inquiry and quotation, and consultation and negotiation. We fully assess our suppliers for our design, construction as well as maintenance services based on their product quality, production capacity, credibility, pricing, delivery reliability and the ability to meet our other requirements. We also conduct periodic assessment with our suppliers to ensure their compliance with our standards. If they fail to comply with our Administrative Measures on Suppliers (《供應商管理辦法》), such as being involved in severe environmental incidents, safety production incidents or labor disputes, we may ban them from supplying materials for us for two years. During the Track Record Period, we did not experience material difficulties in identifying our suppliers or seek their alternatives for our construction, maintenance and design services.

While the contractual terms with the raw material and equipment manufacturers and/or trading companies may vary depending on the actual raw materials purchased, the key arrangements are summarized and set out below.

Price	Generally, the contract price is determined by the per unit cost of the raw materials.
Payment terms	Generally, we pay the purchase price of the raw materials in specified stages (i.e. upon passing of inspection and upon expiration of warranty period) or in full upon receipt of the raw materials.
Delivery	The supplier is generally responsible for delivery of the raw materials to our specified location and should bear all relevant delivery costs.
Product quality inspection	We usually conduct inspection on the quality of the raw materials upon our receipt of the goods, and will raise any defective issues within a specified period.
Quality warranty	We are generally offered a quality warranty period of two years.

During the Track Record Period, we sourced certain labor services from the third-party labor service providers, which are Independent Third Parties, on a project-by-project basis, in the course of our construction, maintenance and design execution, as we consider that it is

more cost-efficient to source labor which possesses different skills, such as welding, plastering, carpentry and scaffolding, through these third-party labor service providers than by maintaining the manpower by us.

The third-party labor service providers engaged by us are corporate entities principally engaged in providing labor outsourcing services for construction companies in the PRC. They are responsible for recruiting and arranging their own workers to undertake the manual works on-site as required and determined by us. The key arrangements between the third-party labor service providers and us are summarized and set out below:

Scope of labor services	We usually agree with the third-party labor service providers on the specific work scope, volume of work required, time of delivery and contract price based on project requirements we undertake. We remain responsible for the project implementation, procurement of raw materials and directly accountable to our customers for the works delivered by the workers provided by third-party labor service providers.
Qualification of the workers	We require the workers to possess the necessary qualifications for carrying out such works as specified in the scope of services.
Work supervision and quality control	The workers are required to carry out their work under the supervision of our project manager. We have the rights to conduct inspections and impose quality standard and to require rework or replace workers if the work performed by them fails to fulfill our requirements or standards.
Work safety and insurance	The third-party staffing company and their workers are required to comply with the labor protection and work safety as required by the relevant PRC laws and regulations. In the event that work-related accidents occur, the third-party labor service providers are required to report to the authority immediately and inform us. The third-party labor service providers will purchase injury insurance for their workers on-site for injuries suffered in work-related accidents. We will purchase property insurance for the raw materials, equipment and machinery used.

BUSINESS

Labor service fee	The labor service fee varies according to the work volume, job nature and technical complexity of the works to be involved and time of delivery, and is subject to our confirmation or verification of the above.
Welfare contribution for the workers	The third-party labor service providers are responsible for making social insurance and housing provident fund contributions for the workers.

As we have limited control over our third-party labor service providers, we cannot assure you that such service providers will perform up to our required standard at all times. Please refer to the section headed “Risk Factors – We outsource part of our manual works to third-party labor service providers for our construction, maintenance and design services and we may not have full control over them” in this prospectus for details.

Seasonality

Our construction, maintenance and design services experienced seasonality during the Track Record Period, due to the fact that most of the projects were undertaken outside the heat supply period to avoid interruption or suspension to the continuous heat supply.

OUR TOP FIVE CUSTOMERS

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, sales to our largest customer accounted for approximately 2.0%, 8.1%, 15.7% and 3.8% of our sales revenue, respectively. For the same periods, sales to our five largest customers accounted for approximately 7.1%, 17.5%, 29.1% and 11.1% of our sales revenue, respectively. Our Directors confirm that except for disclosed below, none of our Directors, their respective associates or any shareholder (which to the knowledge of our Directors owns 5% or more of our Company’s issued share capital) held any interest in any of our five largest customers during the Track Record Period.

The following tables set out certain information with respect to our five largest customers during the Track Record Period. Length of relationship with our Group may be traced back to the periods before the Reorganization and therefore the length of relationship with our Controlling Shareholder in the context of our Group’s business may also be included.

BUSINESS

Year ended 31 December 2016

Rank	Five largest customers	Business scope	Products/services sold/ provided by our Group	% to our total revenue	Approximate length of relationship with our Group
1	Customer A (Jilin Qinglv Construction Engineering Co., Ltd.* 吉林青旅建設工程有限公司)	Building construction, decoration, engineering	Construction, design and maintenance	2.0%	3 years
2	Customer B (Jilin University* 吉林大學)	Education/scientific research	Heat supply	1.5%	21 years
3	Customer C (Jilin Construction University* 吉林建築大學)	Education/scientific research	Heat supply	1.3%	10 years
4	Customer D (Jilin Province Central City Water Supply Co., Ltd.* 吉林省中部城市供水股份有限公司)	Water supply	Heat supply	1.2%	6 years
5	Customer E (CRRC Changchun Changke Shiye Co., Ltd.* 中車長春長客實業有限公司 formerly known as 中車集團長春客車廠) ⁽¹⁾	Development, production and maintenance of high-speed EMU, mainline passenger vehicle, urban mass transit vehicle	Construction, design and maintenance	1.1%	1 year

Note:

(1) Customer E only had business relationship with our Group in 2016.

Year ended 31 December 2017

Rank	Five largest customers	Business scope	Products/services sold/ provided by our Group	% to our total revenue	Approximate length of relationship with our Group
1	Customer F (Jilin Railway Survey & Design Institute Co., Ltd.* 吉林鐵道勘察設計院有限公司)	Survey and design consulting for the railway industry, municipal industry (bridge construction, tunnel engineering, rail transit) and construction industry	Construction, design and maintenance	8.1%	2 years
2	Customer G (Datang JV) ⁽¹⁾	Production and sale of heat and hot water, design and construction of thermal engineering	Construction, design and maintenance	4.6%	2 years
3	Customer H (China Construction Third Engineering Bureau Co., Ltd.* 中建三局集團有限公司)	General contracting and construction	Construction, design and maintenance	1.9%	2 years
4	Customer A (Jilin Qinglv Construction Engineering Co., Ltd.* 吉林青旅建設工程有限公司)	Building construction, decoration	Construction, design and maintenance	1.5%	3 years
5	Customer I (Changchun Light Railway Heating Company* 長春市輕軌供熱有限公司)	Heat supply to light railways in Changchun	Construction, design and maintenance	1.4%	3 years

Note:

(1) Customer G is an associate of our Controlling Shareholder.

BUSINESS

Year ended 31 December 2018

Rank	Five largest customers	Business scope	Products/services sold/ provided by our Group	Approximate % to length of our total relationship with revenue our Group
1	Customer J (China Railway Ninth Group Co., Ltd. Fourth Engineering Co., Ltd.* 中鐵九局集團第四工程有限公司)	General contracting and construction	Construction, design and maintenance	15.7% 1 year
2	Customer H (China Construction Third Engineering Bureau Co., Ltd.* 中建三局集團有限公司)	General contracting and construction	Construction, design and maintenance	4.5% 2 years
3	Customer F (Jilin Railway Survey & Design Institute Co., Ltd.* 吉林鐵道勘察設計院有限公司)	Survey and design consulting for the railway industry, municipal industry (bridge construction, tunnel engineering, rail transit) and construction industry	Construction, design and maintenance	3.1% 2 years
4	Customer K (Changchun Chengtong Construction Investment Co., Ltd.* 長春城投建設投資(集團)有限公司)	Municipal infrastructure operation and investment, development and construction of security housing, land reserves (primary development), waste water disposal and recycling and property leasing	Construction, design and maintenance	3.1% 1 year
5	Customer L (Changchun Heating Group) ⁽¹⁾	Property management, water supply, pipeline manufacturing, sale of industrial steam and financial investment	Construction, design and maintenance, heat supply	2.7% N/A

Note:

- (1) Changchun Heating Group is our Controlling Shareholder, and we will continue to provide construction, maintenance and design services to them. For details, please refer to the section headed “Connected transactions – Continuing Connected Transaction – Provision of construction, maintenance and design services to our Controlling Shareholder Group under the Construction Framework Agreement” in this prospectus.

BUSINESS

Three months ended 31 March 2019

Rank	Five largest customers	Business scope	Products/ services purchased	Approximate % to length of our total relationship with cost of sales our Group
1	Customer H (China Construction Third Engineering Bureau Co., Ltd.* 中建三局集團有限公司)	General contracting and construction	Construction, design and maintenance	3.8% 2 years
2	Customer J (China Railway Ninth Group Co., Ltd. Fourth Engineering Co., Ltd.* 中鐵九局集團第四工程有限公司)	General contracting and construction	Construction, design and maintenance	3.0% 1 year
3	Customer B (Jilin University* 吉林大學)	Education/scientific research	Construction, design and maintenance, heat supply	1.5% 21 years
4	Customer K (Changchun Chengtong Construction Investment Co., Ltd.* 長春城投建設投資(集團)有限公司)	Municipal infrastructure operation and investment, development and construction of security housing, land reserves (primary development), waste water disposal and recycling and property leasing	Construction, design and maintenance	1.4% 1 year
5	Customer L (Changchun Heating Group) ⁽¹⁾	Property management, water supply, pipeline manufacturing, sale of industrial steam and financial investment	Construction, design and maintenance, heat supply	1.4% N/A

Note:

- (1) Changchun Heating Group is our Controlling Shareholder, and we will continue to provide construction, maintenance and design services to them. For details, please refer to the section headed “Connected transactions – Continuing Connected Transaction – Provision of construction, maintenance and design services to our Controlling Shareholder Group under the Construction Framework Agreement” in this prospectus.

BUSINESS

OUR TOP FIVE SUPPLIERS

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, purchases from our largest supplier accounted for approximately 18.3%, 15.4%, 12.0% and 20.6% of our cost of sales, respectively. For the same periods, purchases from our five largest suppliers accounted for approximately 44.2%, 44.4%, 39.5% and 69.6% of our cost of sales, respectively. Our Directors confirm that none of our Directors, their respective associates or any shareholder (which to the knowledge of our Directors owns 5% or more of our Company's issued share capital) held any interest in any of our five largest suppliers during the Track Record Period.

The following tables set out certain information with respect to our five largest suppliers during the Track Record Period. Length of relationship with our Group may be traced back to the periods before the Reorganization and therefore the length of relationship with our Controlling Shareholder in the context of our Group's business may also be included.

Year ended 31 December 2016

Rank	Five largest suppliers	Business scope	Products/ services purchased	% to our total cost of sales	Approximate length of relationship
1	Supplier A (No. 2 Cogeneration Plant)	Electricity, heat production and sales, energy conservation and energy development	Heat source	18.3%	21 years
2	Supplier B (Changchun Weixu Economic and Trade Co., Ltd.* 長春市威緒經貿有限責任公司) ⁽¹⁾	Processing, distribution and sale of coal	Coal	11.7%	8 years
3	Supplier C (No. 4 Cogeneration Plant)	Electricity, heat production and sales	Heat source	6.6%	9 years
4	Supplier D (State Grid Jilin Electric Power Supply Company* 國網吉林省電力有限公司)	Operation, management and construction of power grids, supply of electricity	Electricity	4.8%	21 years
5	Supplier E (Jixi Yatai Coal Preparation Co., Ltd.* 雞西亞泰選煤有限公司) ⁽²⁾	Mining, processing and sale of coal	Coal	2.8%	4 years

Notes:

(1) The business relationship with Supplier B was terminated in 2018.

(2) The business relationship with Supplier E was terminated in 2017.

BUSINESS

Year ended 31 December 2017

Rank	Five largest suppliers	Business scope	Products/ services purchased	Approximate % to length of our total relationship with cost of sales our Group
1	Supplier A (No. 2 Cogeneration Plant)	Electricity, heat production and sales, energy conservation and energy development	Heat source	15.4% 21 years
2	Supplier B (Changchun Weixu Economic and Trade Co., Ltd.* 長春市威緒經貿有限責任公司) ⁽¹⁾	Processing, distribution and sale of coal	Coal	12.6% 8 years
3	Supplier C (No. 4 Cogeneration Plant)	Production, construction, operation management and sale of electricity	Heat source	6.2% 9 years
4	Supplier F (Hebei Gongda Keya Energy Technology Co., Ltd.* 河北工大科雅能源科技股份有限公司)	Development and application of shallow geothermal energy; urban centralized heating energy-saving monitoring system	Construction, materials and equipment	5.4% 2 years
5	Supplier D (State Grid Jilin Electric Power Supply Company* 國網吉林省電力有限公司)	Operation, management and construction of power grids, supply of electricity	Electricity	4.8% 21 years

Note:

(1) The business relationship with Supplier B was terminated in 2018.

BUSINESS

Year ended 31 December 2018

Rank	Five largest suppliers	Business scope	Products/ services purchased	Approximate % to length of our total relationship with cost of sales our Group
1	Supplier A (No. 2 Cogeneration Plant)	Electricity, heat production and sales, energy conservation and energy development	Heat source	12.0% 21 years
2	Supplier G (Jilin Baiyao Construction Laboring Company Ltd.* 吉林省百耀建築勞務有限公司)	Construction and labor supply and staffing	Labor service	8.2% 2 years
3	Supplier C (No. 4 Cogeneration Plant)	Production, construction, operation management and sale of electricity	Heat source	7.5% 9 years
4	Supplier H (No. 5 Cogeneration Plant)	Power generation and supply, heat supply and new energy projects	Heat source	6.3% 1 year
5	Supplier B (Changchun Weixu Economic and Trade Co., Ltd.* 長春市威緒經貿有限責任公司) ⁽¹⁾	Processing, distribution and sale of coal	Coal	5.5% 8 years

Note:

(1) The business relationship with Supplier B was terminated in 2018.

Three months ended 31 March 2019

Rank	Five largest suppliers	Business scope	Products/ services purchased	Approximate % to length of our total relationship with cost of sales our Group
1	Supplier H (No. 5 Cogeneration Plant)	Power generation and supply, heat supply and	Heat source	20.6% 1 year
2	Supplier C (No. 4 Cogeneration Plant)	Production, construction, operation management and sale of electricity	Heat source	20.6% 9 years
3	Supplier A (No. 2 Cogeneration Plant)	Electricity, heat production and sales, energy conservation and energy development	Heat source	19.9% 21 years

BUSINESS

Rank	Five largest suppliers	Business scope	Products/ services purchased	Approximate % to length of our total relationship with cost of sales our Group
4	Supplier D (State Grid Jilin Electric Power Supply Company* 國網吉林省電力有限公司)	Operation, management and construction of power grids, supply of electricity	Electricity	5.3% 21 years
5	Supplier G (Jilin Baiyao Construction Laboring Company Ltd.* 吉林省百耀建築勞務有限公司)	Construction and labor supply and staffing	Labor service	3.2% 2 years

INVENTORY CONTROL

Our inventories mainly consist of materials and supplies as well as coal (coal is no longer needed upon the expiration of the heat supply period in April 2018). Materials and supplies mainly consist of pipeline components, valves and other materials necessary for heat supply. Coal was purchased in connection with heat produced by coal-fired boilers. Our Directors understand the importance of inventory management to maintain our operation costs and risks at a low level. We monitor our inventory levels by taking into account production planning, projected demand, current inventory level, prevailing market condition and availability of the raw materials, supplies and coal we need in order to balance our operation needs and our exposure to changes in raw material prices as well as our internal resources. We also review and adjust our inventory control policy from time to time.

For materials and supplies, we estimate the amount of such to be ordered based on work schedule and on an as-needed basis. We generally do not keep high level of materials and supplies inventories. For our inventory control policy regarding coal, please refer to the paragraphs headed “– Our Business Segments – Heat Supply – Our Heat Production – Raw material and inventory management” in this section of this prospectus.

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our provision for impairment on inventories was approximately RMB5.9 million, RMB5.9 million, RMB5.6 million and RMB5.6 million, respectively. For information regarding our inventory impairment policy, please refer to the section headed “Financial Information – Discussion of Certain Items of Consolidated Statements of Financial Position – Inventories” in this prospectus.

MARKETING

During the Track Record Period, our marketing activities primarily include enhancing our brand awareness, launching advertising activities and engaging in social events. However, we did not incur significant marketing expenses during the Track Record Period.

BUSINESS

RESEARCH AND DEVELOPMENT

Due to the nature of our business, we did not incur significant research and development expenses during the Track Record Period.

AWARDS, RECOGNITION AND CERTIFICATION

Various awards and recognition were received by our Controlling Shareholder from government authorities or other organizations in relation to our Group's business, which reflects the trust and confidence we have achieved in the industry. The table below sets out the key awards, recognitions and certifications that have been received by us as at the Latest Practicable Date.

Time of Grant	Award/Recognition	Awarding authority
April 2019	Energy Efficiency Leader in the Heat Supply Industry of China for 2017-2018 (2017-2018年度中國供熱行業能效领跑者)	China Urban Heating Association
August 2017	Famous Enterprise in Jilin Province (吉林省著名企業)	Jilin Province Credit Review and Verification – Enterprise Credit Rating Centre (SNXHEX); Jilin Province Committee on Integrity Rating of Market Entities; Review Committee for Brand Name Product and Quality Product under Jilin Province Quality Inspection, Review and Certification Centre
June 2017	Jilin Province AAAAA Class Integrity Enterprise (省級五A級誠信企業)	Jilin Province Credit Review and Verification – Enterprise Credit Rating Centre (SNXHEX); Jilin Province Committee on Integrity Rating of Market Entities; Review Committee for Brand Name Product and Quality Product under Jilin Province Quality Inspection, Review and Certification Centre

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Time of Grant	Award/Recognition	Awarding authority
May 2017	Outstanding Company in the 2016 Standardization Assessment of Heat Supply Industry in Jilin Province (吉林省供熱行業2016年度規範化考核工作優秀單位)	Jilin Province Housing and Urban-Rural Construction Department
March 2017	Consumer Satisfaction Company 2016 (2016年度消費者滿意單位)	Jilin Province Consumers Association
February 2017	Changchun State-owned Assets Supervision and Administration Commission Outstanding Company for Work Safety 2016 (長春市國資委系統2016年度安全生產工作先進單位)	Changchun People's Government State-owned Assets Supervision and Administration Commission
October 2016	Jilin Province Top 10 Outstanding Heat Supply Companies (吉林省十佳供暖先進單位)	Jilin Daily; Reporters Department of Jilin Daily; Jilin Province Supervision and Selection Committee on Comprehensive Matters

COMPETITION

According to the Frost & Sullivan Report, the centralized municipal heating markets in China, Northeast China and Jilin Province are fragmented while market concentration of municipal heating market area in Jilin Province is relatively higher than that in Northeast China and China. Most municipal heating enterprises in China are local companies. Major market participants in the PRC municipal heating market are (i) specialized heat service providers; (ii) subsidiaries of power generation groups; and (iii) property developers. In 2018, we are the largest heat service provider in Jilin Province and Changchun by heat service area, respectively. We believe that our leading market position, effective cost structure, smart heating network system, comprehensive heat related services and experienced management team will continue to enable us to remain competitive in the future. Please see the section headed “Industry Overview – Competitive Landscape of the Municipal Heating Industry in the PRC” in this prospectus for further details on the markets in which we operate and for a discussion of our competition.

RISK MANAGEMENT AND INTERNAL CONTROL**Risk Management**

During the Track Record Period, we believe that we are primarily exposed to the following risks: (i) operational risks, such as market development, quality control and customer services; (ii) regulatory risks, such as safety, environmental protection and maintenance of required licenses, permits and certificates; (iii) financial risks, such as interest rate risk, credit risk and capital management; and (iv) environmental and social risks, such as climate change, supply chain and human resources.

We have established risk management system through which we monitor, evaluate and manage risks that we are exposed to in our business activities. We plan to review and refine our risk management system every year based on changes to our business. For more information regarding our risk management committee, please refer to the section headed “Directors, Supervisors and Senior Management – Board Committees – Audit Committee” in this prospectus.

Environmental, Social and Governance

We have ceased to use coal-fired boilers since April 2018, and since then, we have procured all heat source from the cogeneration plants. Thus, we are no longer directly involved in a pollution-prone industry. Nonetheless, we still proactively identify any major environmental and social risks related to our business, such as climate changes, environmental compliance, health and safety, supply chain and human resources, etc. For risks related to climate change, please refer to the section headed “Risk Factors – Heat supply is affected by the overall weather condition during the heat supply period” in this prospectus for details.

We have set up metrics and targets for environmental and health and safety management, and have reviewed major environmental and social risk performance on a regular basis. For example, we have set up energy-saving targets, including heat consumption of less than 0.33 GJ per sq.m. and the electricity consumption of less than 1 kWh per sq.m. As at 31 December 2016, 2017 and 2018, our heat consumption was 0.46, 0.45 and 0.47 GJ per sq.m., and our electricity consumption was 1.7, 1.6 and 1.7 kWh per sq.m., respectively. We use a smart heating network system to monitor and collect the energy consumption metrics and to make automated output adjustment and problem solving proposals which allow energy saving and ensure safe operation. We will make technical improvements to our circulation pumps and electrical valves, etc., to lower heat exchange station electricity consumption. We have set a target to reduce water consumption to less than 30 kg per sq.m.. As at 31 December 2016, 2017 and 2018, our water consumption was 60.8, 54.7 and 57.1 kg per sq.m., respectively. We will carry out regular maintenance of our primary distribution pipelines and replace leaked pipeline and valve to reduce water leakage. As part of our continuous efforts to improve operational efficiency, we will also use a portion of our proceeds from the Global Offering to enhance our smart heating network system to achieve a more stable, efficient and technologically advanced

heat supply, and to update and replace existing primary distribution pipelines and heat supply facilities to reduce the costs incurred in the water leakage and heat lost resulting from corrosion. For details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

We assess the impact of such risks to our Group and our stakeholders from time to time and have established a governance system to mitigate them. We have formed a standard management system regarding risks related to our business. Our Directors and senior management conduct daily supervision and are collectively responsible for each environmental and social risk. Mr. Zhang Liming (張黎明), our deputy general manager, is principally responsible for the management of environmental risks, safety risks and customer service risks. Our technical equipment department, together with various business divisions and subsidiaries, manage and control the noise and waste impact during the provision of our construction and maintenance services. Our security department, as the lead management department of safety production, conducts systemic construction, implementation and supervision of our safety production system, emergency disposal and reporting of safety production incidents. Mr. Yang Zhongshi (楊忠實), our vice chairman of the Board, an executive Director and the general manager, is principally responsible for the management of supply chain risks and human resources risks. Our material management department is responsible for setting up an evaluation system for supplier approval and assessment to regulate the conduct of suppliers. Our human resources department conducts specific management and implementation of employees recruitment, training, and remuneration and benefits.

Internal Control

We have adopted, or expect to adopt before the Listing, different internal guidelines, along with written policies and procedures to monitor and reduce the impact of risks which are relevant to our business, control our daily business operations, improve our Group’s corporate governance and ensure compliance with the applicable laws and regulations. In particular, such measures include:

- the engagement of an independent internal control consultant and adoption of the improvement measures recommended by such consultant;
- the establishment of the Audit Committee responsible for overseeing the financial records internal control procedures of our Company;
- we have improved the existing internal control framework by adopting a set of internal control manual and policies, which cover corporate governance, risk management, operations and legal matters;
- we have appointed Messis Capital Limited as our compliance adviser with effect from the date of the Listing;

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- the appointment of qualified lawyer in the PRC to ensure due compliance of our business operation in the PRC with the applicable laws and regulations;
- the engagement of external legal advisers to advise us on compliance with the Listing Rules and to ensure we will not be in breach of any relevant regulatory requirements or applicable laws, where necessary;
- we will assess and monitor the implementation of our internal control manual and policies by the relevant departments and companies in our Group through regular audits and inspections;
- we will provide internal training to staff as appropriate in order to enable them to follow the internal control and corporate governance procedures;
- our audit committee will assume responsibility for monitoring and managing our environmental, social and governance risks and will be responsible for guiding the work promotion and regular review of important environmental, social and governance related matters; and
- we will publish an Environmental, Social and Governance Report each year to analyze and disclose important environmental, social and governance matters, risk management, and the accomplishment of performance and objectives.

INSURANCE

We maintain property insurance for the manhole covers and vehicle insurances for our owned vehicles. However, we have not maintained property insurance for heat supply equipment or heat distribution system. Our Directors confirm that our insurance practice is consistent with that of the industry. For risks relating to insufficient insurance coverage, please refer to the section headed “Risk Factors – Risks relating to our Business – Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter” in this prospectus.

We also maintain mandatory social security insurance policies for our employees in the PRC pursuant to the PRC law. Please see the paragraphs headed “– Welfare Contributions” in this prospectus for further details. In addition, we expect that we will maintain directors’ and officers’ liability insurances for the executive Directors and executive officers of our Company on or before Listing.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material business interruptions or material insurance claims. We will procure necessary additional insurance coverage for our business operations on an as-needed basis.

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EMPLOYEES

As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had a total number of 1,329, 1,174, 1,067 and 1,081 employees, respectively. Our number of employees decreased from 1,329 as at 31 December 2016 to 1,174 as at 31 December 2017, primarily due to reassignment of certain positions originally relating to our Group's business to three newly established subsidiaries of our Controlling Shareholder prior to the Reorganization. Our number of employees decreased from 1,174 as at 31 December 2017 to 1,067 as at 31 December 2018, primarily due to reassignment of certain positions resulting from the Reorganization and a reduced manpower requirement following the completion and implementation of our smart heating network system. As at 31 March 2019, we had a total of 1,081 employees, of whom over 30% have work experience of more than 20 years in heat supply operations and 23% hold professional title certificates in the areas such as engineering, accounting and administration. All of our employees are located in Jilin Province, the PRC. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our labor costs were approximately RMB147.8 million, RMB154.5 million, RMB142.3 million and RMB37.0 million, respectively.

The table below sets out the aggregate number of employees, categorized by function, and the percentage of each category of our total employees as at the Latest Practicable Date:

Function	Number of Employees	Percentage of Total Employees
Senior Management	5	0.5%
Business Planning and Development	24	2.2%
Finance	31	2.9%
Internal Control	4	0.4%
Technical Support	18	1.7%
Procurement	19	1.8%
Heat Supply Management and Customer Services	686	64.0%
Construction, Maintenance and Design	187	17.5%
Administration	97	9.0%
Total:	<u>1,071</u>	<u>100%</u>

We highly value our employees and place emphasis on the development of our employees. In order to advance the skills and knowledge of our employees as well as to explore new potentials from our workforce, we provide regular training for various department heads, design training programs for our staff and offer targeted training to certain of our key employees.

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According to the PRC Labor Law (《中華人民共和國勞動法》) and the Labor Contract Law of PRC (《中華人民共和國勞動合同法》), we are required to enter into labor contracts with individual workers we hire. The wages we pay to our employees and workers cannot be lower than the local minimum wage standards specified by the government from time to time. We are also required to make severance payments to an employee when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the existing contract.

The remuneration package of our employees includes basic salary, performance salary and allowances. Our employees also receive welfare benefits including medical care, housing provident funds, retirement pension and other miscellaneous benefits according to the laws and regulations of PRC and Jilin Province.

In addition to the full-time employees we employed, for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, for certain supporting positions, such as staff providing cleaning and catering services, we utilized the services of workers hired and supplied by third-party labor service providers in a number of 79, 105, 98 and 35 person-times, respectively. The key terms of our labor supply contracts with third-party labor service providers include brief description of eligibility, term of service, and rights and obligations of the staffing company and us. Our payment to the staffing companies usually includes compensation for the workers, social welfare contribution for the workers, and a management fee to the staffing company. Our PRC Legal Advisers are of the view that the arrangement among third-party labor service providers, their workers and us is in compliance with the relevant laws and regulations in the PRC.

We have established a labor union in accordance with the PRC laws and regulations. We believe we have a good working relationship with our employees. We also adhere to the principle of equal employment and avoid all forms of illegal employment such as child labor and forced labor as stipulated in our internal regulations on labor management of employees. We respect the diverse backgrounds of our employees and strictly eliminate ethnic discrimination.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material labor dispute with our employees, or received any relevant complaints, notice or orders from relevant government authorities or third parties, nor did we experience any labor strikes or other labor disturbances that had materially affected our business operations and public image. We believe that our senior management and employees will continue to maintain good relationships with each other.

WELFARE CONTRIBUTIONS

We must comply with PRC laws and regulations relating to social welfare. In accordance with applicable Chinese regulations, we currently participate in social insurance contribution plan organized by the relevant local governments. We currently provide employees with a pension insurance program, medical insurance program, unemployment insurance program, individual work injury program, maternity insurance contributions and employee public housing reserve contributions and other welfare benefit. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the total amount of our welfare contribution was approximately RMB49.7 million, RMB54.2 million, RMB45.1 million and RMB11.7 million, respectively.

As at the Latest Practicable Date, we believe that we had complied with all applicable national and local laws and regulations relating to social welfare and have paid in full the social security premiums and contributions payable as required by PRC laws and regulations and have never been penalized for any violation of these laws.

ENVIRONMENTAL COMPLIANCE

During the Track Record Period, we are subject to national and local environmental protection regulations in the PRC. The main PRC environmental protection laws and regulations applicable to our heat supply include Environmental Protection Law of PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Environmental Impact Appraisal (《中華人民共和國環境影響評價法》) and the Provisional Regulations on Control of Pollutant Discharge Permit (《排污許可證管理暫行規定》), the Law of the PRC on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》). Such environmental laws and regulations impose fines for the discharge of waste substances. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage.

According to the national environmental protection regulations, we have formulated the Environmental Pollution Prevention and Control Management System (《環境污染防治管理制度》) and the Measures for the Management of Waste Materials (《廢舊物資管理辦法》) to manage risks of noise, waste, hazardous waste, water pollutants, etc. The environmental risks are managed by our technical equipment department in a unified manner, and the solid wastes generated by the retirement of fixed assets are managed by our material management department.

During the Track Record Period and up to the Latest Practicable Date, we had not received any notifications or warnings, nor had we been subject to any substantial fines or penalties in relation to any breach of any such environmental laws or regulations which had materially and adversely affected our production. For more information regarding our environmental risk compliance, please refer to the section headed “Risk Factors – We may incur additional costs should the PRC Government adopt stricter or additional environmental laws or requirements” in this prospectus.

We believe that our businesses are in compliance with currently applicable national and local environmental laws and regulations in all material aspects. We have incurred environmental compliance costs of RMB17.4 million, RMB14.6 million, RMB4.4 million and nil for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. Such costs were primarily related to the desulfurization, dust removal and waste discharge associated with the heat production by coal-fired boilers. We expect our annual environmental compliance costs will be minimal in 2019 as we have ceased the heat production by coal-fired boilers since the commencement of heat supply period in 2018.

HEALTH AND SAFETY

We are subject to PRC laws and regulations regarding labor, safety and work related incidents, including among others, Labor Law of the People’s Republic of China (《中華人民共和國勞動法》), Labor Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》), Production Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》) and Regulation on Work Safety Licenses (《安全生產許可證條例》). For more information, please refer to the section headed “Regulatory Overview” in this prospectus. To maintain a safe working environment and increase awareness in occupational health and safety, we have implemented safety management policies which cover the applicable occupational safety laws and regulations for self-evaluation by different personnel, including the following:

- We have the safety production license qualification for pressure vessels and have developed systems and control requirements for the operations of various types of special equipment, such as the Safety Management System for Special Equipment and Special Operators (《特種設備及特種作業人員安全管理制度》), requiring all types of special equipment operators to be license-holders and to be equipped with complete safety protection facilities for the construction site. In respect of high-risk operations such as operations with fire hazards, operations at heights, operations with electric hazards, lifting operations and operations in confined spaces involved in the process of construction and maintenance of the facility and pipeline networks, we have formulated the Dangerous Operation Management Approval System (《危險作業管理審批制度》) and other systems and operating procedures, requiring all types of personnel to supervise, approve and operate the operating site in strict adherence to the approval process, and to wear labor protection appliances according to the operating procedures.

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- We have developed a comprehensive emergency response mechanism for accident pre-warnings and emergency for special operations and high-risk operations involved in the construction and maintenance process, so as to ensure that the entire production and operation process is under control and that it is less likely to be involved in a safety accident.
- We conduct periodic inspections of our heat supply facilities and construction and maintenance projects to ensure that all aspects of our operations are in compliance with existing laws and regulations and that our employees comply with our code of safety management. Any abnormality noted during the periodic safety checks will be reflected in our safety records and follow-up remedial actions will be taken by the responsible departments and officers accordingly. Similarly, the relevant government authorities occasionally conduct safety inspection checks to ensure our operations comply with the workplace safety laws and regulations and would notify us if any of our operations is not in full compliance with the relevant workplace safety laws and regulations.
- Our safety supervision personnel conduct regular training sessions for employees on accident prevention and management. Our employees undergo training upon commencement of their employment with us and this training is performed regularly. Our employees are required to operate equipment correctly to avoid injuries, to wear protective equipment when operating at our heat supply facilities and construction and maintenance projects.
- Each of our companies involved in the construction and maintenance projects have obtained the work safety license (安全生產許可證), and all other permit and approvals with the relevant PRC authorities.
- We have developed annual targets to manage safety production performance accordingly, such as nil major production safety liability accident, nil employee death arising out of his/her employment, and injury rate per 1,000 employees of no more than 3% per year.

During the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable PRC workplace safety regulatory requirements in all material respects and we were not subject to any penalties or disputes relating to health and safety matters that would have a material and adverse effect on our financial conditions or business operations. For more information regarding our health and safety risk, please refer to the section headed “Risk Factors – Our construction, maintenance and design services are subject to certain operational risks” in this prospectus.

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PROPERTIES

Our corporate headquarters is located at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, China, which is rented by us from an Independent Third Party.

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Owned Properties

As at 31 March 2019, we have obtained the immovable property rights of three parcels of land with an aggregate site area of approximately 1,228 sq.m. in the PRC and the buildings situated above with an aggregate gross floor area of approximately 1,260 sq.m., which are mainly used for office purposes. Our PRC Legal Advisers confirm that we have the right to independently occupy and use such land and buildings.

As at 31 March 2019, we have obtained the immovable property rights of two buildings with an aggregate gross floor area of approximately 488 sq.m. in the PRC, which are mainly used for office purposes. Our PRC Legal Advisers confirm that we have the right to independently occupy and use such buildings.

A summary of our owned land and buildings as of the Latest Practicable Date is set out below:

No.	Location	Owner	Usage	Approximate	Approximate
				site area (sq.m.)	gross floor area (sq.m.)
1	No. 21 Rongguang Road 2nd Alley, Erdao District, Changchun, Jilin Province (吉林省長春市二道區榮光路二 條21號)	Company	Office for business operation	484	294

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No.	Location	Owner	Usage	Approximate site area (sq.m.)	Approximate gross floor area (sq.m.)
2	No. 12 Tongzhi Street, Chaoyang District, Changchun, Jilin Province (吉林省長春市朝陽區同志街12號)	Company	Office	104	452
3	Zhishan Road, Nanguan District, Changchun, Jilin Province (吉林省長春市南關區至善路)	Company	Office for business operation	640	514
4	Building No. 8, Yuandong Community, Nanguan District, Changchun, Jilin Province (吉林省長春市南關區園東小區8號樓)	Company	Office for business operation	–	444
5	Building No. 8, Yuandong Community, Nanguan District, Changchun, Jilin Province (吉林省長春市南關區園東小區8號樓)	Company	Garage	–	44

Leased Properties

As of 31 March 2019, we leased seven properties, with an aggregate gross floor area of approximately 3,536 sq.m. in the PRC. These leased properties are primarily for office use. Our PRC Legal Advisers have confirmed that we have formally signed tenancy agreements with the owners of the leased properties and filed registration records with the relevant government authorities for No.1 to No.6 of our leased properties set out below. The contents of the tenancy agreements do not violate the mandatory provisions of laws and administrative regulations. As of the Latest Practicable Date, the lease agreement we entered into with our landlord for the No.7 of our leased properties set out below had not been registered with relevant PRC government authorities. As advised by our PRC Legal Advisers, the validity and enforceability of this lease agreement is not affected by the failure to register or file the lease agreement with the relevant government authorities and such failure will not have a material adverse impact on our business operations. However, we may be ordered by the relevant government authorities to register this lease agreement within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000. As of the Latest Practicable Date, we had not received any such request from the relevant government authorities.

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A summary of our leased properties as of the Latest Practicable Date is set out below:

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate gross floor area (sq.m.)
1	Room 1701, Block 28, B District, Nanhu Road Community, Hongcheng Xiyu, No. 6988 Yatai Street, Nanguan District, Changchun, Jilin Province (吉林省長春市南關區亞泰 大街6988號鴻城西域小區 南湖大路小區B區28幢 1701號房) ^(Note 1)	Changchun Weishi Lighting Technology Co., Ltd. (長春為實照 明科技有限公司) ("Changchun Weishi")	Heating Engineering Design	From 15 July 2018 to 15 July 2023	Office	433
2	Room 106, Block 8, Wan Sheng Zhong Yang Yi Pin, South Qixin Hutong, East Heshun North 4th Alley, North Jilin Road, West Dongsheng Road, Changchun, Jilin Province (吉林省長春市東盛大街以 西, 吉林大路以北, 和順北 四條以東, 啟新胡同以南, 萬 盛. 中央一品8幢106號房)	Wang Bo (王博)	Changre Pipelines	From 1 July 2019 to 30 June 2020	Office	207
3	Room 111, No. 77 Building, Hongcheng Park, No. 88 DongNanhu Road, Nanguan District, Changchun, Jilin Province (吉林省長春市南關區東南 湖大路88號鴻城國際花園 小區77號樓111號房)	Li Wei (李偉)	Changre Maintenance	From 1 May 2018 to 30 April 2021	Office	400

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No.	Location	Landlord	Tenant	Lease period	Usage	Approximate gross floor area (sq.m.)
4	No. 5 Heping Street, Changchun, Jilin Province (吉林省長春市和平大街5號)	Changchun Heating Group	Changchun Runfeng	From 1 May 2018 to 30 April 2021	Office	600
5	Room 1701, Block 28, B District, Nanhu Road Community, Hongcheng Xiyu, No. 6988 Yatai Street, Nanguan District, Changchun, Jilin Province (吉林省長春市南關區亞泰大街6988號鴻城西域小區南湖大路小區B區28幢1701號房) ^(Note 1)	Changchun Weishi	Company	From 15 July 2018 to 15 July 2023	Office	433
6	Xichang Community, Chaoyang District, Changchun, Jilin Province (吉林省長春市朝陽區西昌小區)	Changchun Heating Group	Company	From 1 May 2018 to 30 April 2021	Office	967
7	A three-story building located at the east side of Chaoyang Avenue, Mishazi County, Dehui City, Jilin Province (吉林省德惠市米沙子鎮朝陽大街東側)	Zhao Chunying (趙春英)	Biomass Power	From 1 January 2019 to 31 December 2020	Office	496

Note:

- (1) Changchun Weishi as landlord entered into separate tenancy agreements with Heating Engineering Design as tenant on 7 May 2018 (as supplemented on 20 June 2018 and 13 December 2018) and with our Company as tenant on 15 May 2018 (as supplemented on 21 June 2018 and 18 December 2018), respectively, in respect of the same piece of property. This is because the property is divided into parts with Heating Engineering Design occupying the southern side and our Company occupying the northern side. Changchun Weishi is an Independent Third Party.

Users' Title Defects associated with the Heat Exchange Stations which we used

As at 31 March 2019, we used 466 heat exchange stations in Changchun for the purpose of provision of our heat supply. We are a licensee who installs and operates the equipment installed in these heat exchange stations pursuant to the free use agreements we entered into with the licensors, granting us the right to use the heat exchange stations free of charge. The heat exchange stations are typically constructed by the property developers or owners of the buildings within our heat service area and are typically situated in the common areas of these buildings. As we do not own or construct the heat exchange stations, we are not required to obtain the underlying construction related permits and title certificates which include the land use rights certificates (土地證), building ownership certificates (房產證) or the immovable property certificates (不動產證) (for properties having land use certificates and building ownership certificates combined together, under the recent PRC laws). As a licensee, neither do we have the responsibility nor authority to apply for such title certificates. Nevertheless, as advised by our PRC Legal Advisers, we should enter into free use agreements with the owners who possess the relevant title certificates in order to obtain proper license for the continuous use of the heat exchange stations. For over 60% of the 466 heat exchange stations in terms of number and the heat service area they served as at 31 March 2019, we were unable to enter into such free use agreements with the proper owners for reasons described below.

Reasons of the Users' Title Defects

We believe that the users' title defects were mainly attributable to the lack of complete and valid authority by the relevant parties which requested us to provide heat supply to grant us lawful licenses to use the heat exchange stations. Such parties may include (i) developers or owners who failed to obtain and/or produce title certificates; and (ii) others such as property management companies, owners' committees or end-users which were not properly authorized or failed to produce proper authority by the owners who possessed the relevant valid title certificates to enter into the required free use agreements with us. In cases where the ownership of the heat exchange stations were sold and transferred by the developers as part of the common areas of a residential/commercial complexes while the property management companies or owners' committees failed to have proper authority, it was commercially impracticable for us to enter into free use agreements with each and every owners who possessed the relevant title certificates because certain heat exchange stations may be co-owned by many individual owners of a residential/commercial complex.

Also, as a public utility company, we believe that we have the social responsibility to maintain stable heat supply to the users in Changchun city. As confirmed by the Urban-rural Development Committee of Changchun (長春市城鄉建設委員會), the competent authority as confirmed by our PRC Legal Advisers, without their consent, we cannot reject the request for heat supply from users solely because of the users' title defects of the relevant heat exchange stations so as to avoid suspension of heat supply to users.

We also believe that the users' title defects were beyond our control and can only be rectified by relevant owners of such heat exchange stations. Due to the reasons above, we do not expect that the number of heat exchange stations with users' title defects can be reduced significantly in the future.

Legal Consequences

As advised by our PRC Legal Advisers, the potential legal consequences of the users' title defects include: (i) our equipment installed in the heat exchange stations with users' title defects may be removed or requested to relocate; and (ii) we may be subject to claims (including, but not limited to, accounts for rents) made by the owners with relevant title certificates of the heat exchange stations with users' title defects.

Remedial Measures Taken and Enhanced Internal Control Measures

While the users' title defects were beyond our control and can only be rectified by relevant owners holding the title certificates of such heat exchange stations, we have requested existing licensors of our heat exchange stations to provide proper title certificates and enter into free use agreements with us.

We obtained a written confirmation from Changchun municipal government, the competent authority as confirmed by our PRC Legal Advisers, confirming that (i) we will not be penalized for our historical use of the heat exchange stations with users' title defects; (ii) we may continue to use the heat exchange stations for our heat supply operations; and (iii) if, for whatever reasons, we are unable to continue the use of these heat exchange stations as a result of the users' title defects, relevant departments under the municipal governments will assist in identifying alternate locations for relevant heat exchange stations to ensure that heat supply to the residents will not be interrupted.

We also obtained written confirmations from six district governments and Urban and Rural Construction Bureau (住房和城鄉建設局), the competent authorities as confirmed by our PRC Legal Advisers, that (i) they did not have any dispute or legal proceedings against us in relation to the land use right and construction planning in respect of heat exchange stations; (ii) they did not receive any complaint or report for the violation of land or buildings laws or regulations regarding the heat exchange stations; and (iii) our current and historical use of the heat exchange stations with users' title defects had not violated relevant laws and regulations regarding land and real estate management, construction and construction planning.

In addition, the Urban-rural Development Committee of Changchun, the competent authority as confirmed by our PRC Legal Advisers, confirmed to us that our use of the heat exchange stations with users' title defects would not affect our licenses for operating heat supply business and would not affect the legality or compliance with relevant laws in respect of our heat supply business.

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Further, the Housing and Urban-rural Development Office of the Jilin Province, the competent authority as advised by our PRC Legal Advisers, had issued a confirmation to us that (i) we held all necessary licenses to operate our heat supply business and had complied with relevant laws and regulations; (ii) we had never violated any laws and regulations relating to heat supply, and there was no potential or ongoing dispute between such office and us; and (iii) the use of the heat exchange stations with users' title defects by us would not affect our licenses in operating our heat supply business or the legality or compliance with relevant laws in respect of our heat supply business.

Our Controlling Shareholder has agreed to indemnify our Company and each of our subsidiaries against any actions, claims, direct losses, damages, costs, charges or expenses that may be made, suffered or incurred by us in respect of or arising directly or indirectly from any users' right defects of the heat exchange stations, including any potential fees which may be payable by us in order to obtain the relevant license rights. As no claims had been initiated by the owners with relevant title certificates of the heat exchange stations with users' title defects as at the Latest Practicable Date, such fees (if any) are unascertainable to us. Our Controlling Shareholder has confirmed to us that it has sufficient financial resources to fully indemnify our Company for any damages or costs incurred in relation to the users' right defects hereunder.

As at the Latest Practicable Date, we have adopted the following enhanced internal control measures to address the users' title defects:

- amended our existing heat supply development management system and the relevant internal control manual in order to strengthen the execution and monitoring system in respect of the users' title defects and to ensure our Directors and senior management are properly updated on a regular basis;
- designated our operation department as the responsible department to carry out overall monitoring and management of the users' title defects, which includes conducting regular and random checks and inspections on the status of the users' title defects of the heat exchange stations, and following up with the progress of obtaining title certificates and proper authorizations for those heat exchange stations with users' title defects and preparing monthly report based on the progress status for the new heat exchange stations;
- compiled a register to record and document the details and status of heat exchange stations with users' title defects. Designated staff will follow up with the status of each and every heat exchange stations with users' title defects at specified times and will make quarterly report to the operation department;
- before the commencement of heat supply period of each year, we will formally request (i) relevant owners of the heat exchange stations to rectify the users' title defects; and (ii) for organizations or persons who were not properly authorized by proper owners, to obtain the authorization documents from the proper owners in addition to the title certificates, and report the status to the operation department;

- we will request the developers, owners, organizations or persons who execute the free use agreements to provide relevant title certificate and/or authorization documents from the proper owners before installing our equipment into any new heat exchange stations provided by them. If they are unable to provide such documents, we will record the reasons in the register for the failure to provide such documents;
- we will (i) have an internal control evaluation on the users' title defects of heat exchange stations every six months; (ii) evaluate the works of the designated staff in handling such users' title defects; (iii) assess the overall status of users' title defects; and (iv) make timely report to our Directors and senior management about the risks arising from users' title defects and assess the risks based on the factors such as any previous claims or eviction by third party for unauthorized use;
- we will ensure that proper disclaimers and indemnity provision will be included in the new free use agreements to be entered into between us and the users, to ensure that the users will be responsible for our damages and losses arising from the users' title defects; and
- for developers, owners, organizations or persons who execute the free use agreements and who are unable to provide relevant title certificates and/or authorization documents from the proper owners, we will seek confirmation from relevant industrial regulatory authority to allow us to supply heat to such parties.

Views of our Directors

Having reviewed the PRC legal opinion prepared by our PRC Legal Advisers and based on our remedial measures taken, our Directors are of the view that the risks arising from the users' title defects did not, individually or collectively, have and will not have a material adverse impact on our business operations, financial conditions and results of operations, specifically:

- the risks of us being evicted from relevant heat exchange stations or that the equipment and machinery currently installed within such heat exchange stations being demolished or removed leading to the disruption of our operation is very low because:
 - (i) the demolition or removal of the heat exchange equipment from the heat exchange stations will disrupt the necessary heat supply to the end-users, which in turn will affect the livelihood and work conditions of the users in the city of Changchun;
 - (ii) we have never been evicted from any heat exchange stations since the inception of Changchun Heating Group in 1998;



- (iii) according to the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》), no organization or individual has the right to damage, demolish or move heating facilities without proper authorization;
 - (iv) the Changchun municipal government has confirmed that we can continue to use the heat exchange stations for our heat supply operations and, in case that we are unable to continue the use of these heat exchange stations as a result of the users' title defects, it will assist us in identifying alternate locations for relevant heat exchange stations to ensure that heating service to the residents will not be interrupted; and
 - (v) the risk of us being evicted from a massive number of heat exchange stations at the same time is extremely low. Even in the very unlikely event that we are required to move or relocate its equipment from the heat exchange stations, there would not be material adverse impact on our operations because the relocation (if required) would be conducted outside the heat supply period given heat supply is a basic necessity for the livelihood and work conditions of the residents in the city of Changchun, and there is generally sufficient time for us to carry out relocation during the non-heat supply period.
- we believe that it will not have any material adverse financial impact on us due to the following reasons apart from the above:
 - (i) we have never been penalized for the users' title defects as confirmed by the relevant municipal and district authorities;
 - (ii) there has never been any dispute arising from title defect of the heat exchange stations within Changchun city in the past which has led to relocation of the equipment installed therein or compensation claims, according to the confirmation from the Urban-rural Development Committee of Changchun, the competent authority as advised by our PRC Legal Advisers;
 - (iii) we estimate that the cost of relocating our equipment and machinery to a new heat exchange station is in the range of approximately RMB30,000 to RMB60,000;
 - (iv) given that we operate our heat supply business through the use of hundreds of heat exchange stations, our operation would be adversely affected to a material extent only when a substantial number of heat exchange stations cannot be continuously used by us. The risk of us being evicted from a massive number of heat exchange stations is extremely low;



- (v) under the free use agreements between the licensors and us, in case we are evicted from relevant heat exchange stations by a third party, we are entitled to claim for damages based on the free use agreements against the persons who granted us the license to use such heat exchange stations; and
- (vi) Changchun Heating Group, our Controlling Shareholder, has agreed to indemnify our Company for any losses arising from the users' title defects.

Heat Supply Facilities

In addition to the owned properties, leased properties and equipment installed in heat exchange stations set out above, we also own heat supply facilities which are material for our operation. Almost all of our facilities are located in Changchun, and mainly comprise primary distribution pipelines. Please refer to the paragraphs headed “– Heat Supply – Heat Distribution Network – Primary Distribution Pipeline” in this section for details.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had registered two trademarks  and  in Hong Kong and had successfully registered two domain names. Furthermore, we were the registered owner of 26 copyrights and two patents granted in the PRC as at the Latest Practicable Date which mainly related to (i) our human resources system; (ii) our fuel management system; and (iii) our smart heating network system. For more information regarding our intellectual property rights which are material to our business, please refer to the section headed “Appendix VI – Statutory and General Information – B. Further Information about our Business – 2. Intellectual Property Rights of our Group” in this prospectus.

In addition, we entered into a trademark license agreement on 31 December 2018 with our Controlling Shareholder, pursuant to which our Controlling Shareholder agreed to irrevocably grant us a license to use its trademark () within the PRC on a non-exclusive basis and in Hong Kong on an exclusive basis at nil consideration and for an indefinite term to accommodate our long-term business needs. For more information, please refer to the section headed “Connected Transaction – Fully Exempted Continuing Connected Transactions” in this prospectus. We believe that our operations would benefit from the reputation associated with the  trademark. For the risks relating to the trademark which we do not own but have obtained a license to use, please refer to the section headed “Risk Factors – Risks Relating to our Business – The ‘Changre’ brand name may be harmed or damaged, which may materially and adversely affect our business, financial condition, results of operations and prospects” in this prospectus.

As at the Latest Practicable Date, we were not involved in any material disputes or litigation relating to the infringement of intellectual property rights, and neither were we aware of any such claims, either pending or threatened.

REGULATORY COMPLIANCE

License, Permits and Certificates

We are subject to laws, regulations and supervision by different levels of regulatory authorities and are required to maintain various licenses, permits and certificates in order to operate our projects and conduct our business. A summary of such relevant PRC laws and regulations which our business operations are subject to is set out in the section headed “Regulatory Overview” in this prospectus. Our PRC Legal Advisers have confirmed that we had obtained all necessary licenses, permits and certificates for our business operations in the PRC and such licenses, permits and certificates are valid and remain in effect as at the Latest Practicable Date. The following table sets out details of our licenses, permits and certificates material to our operations:

No.	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity ⁽³⁾
<i>Heat Supply</i>						
1	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSCYQ-017	Changchun Chaoyang Housing and Urban-rural Development Bureau (長春市朝陽區住房和城鄉建設局)	our Company	2019.6.24	Three years
2	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSCYQ-018	Changchun Chaoyang Housing and Urban-rural Development Bureau (長春市朝陽區住房和城鄉建設局)	our Company	2019.6.24	Three years
3	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSCYQ-020	Changchun Chaoyang Housing and Urban-rural Development Bureau (長春市朝陽區住房和城鄉建設局)	our Company	2019.7.04	Three years

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No.	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity ⁽³⁾
4	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCS-JYQ008	Changchun Jingyue Hi-Tech Industry Development Zone Administration Committee (長春淨月高新技術產業開發區城市建設管理委員會)	our Company	2019.7.10	Three years
5	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCS-JYQ009	Changchun Jingyue Hi-Tech Industry Development Zone Administration Committee (長春淨月高新技術產業開發區城市建設管理委員會)	our Company	2019.7.10	Three years
6	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSKCQ-00012	Changchun Kuancheng Housing and Urban-rural Development Bureau (長春市寬城區住房和城鄉建設局)	our Company	2019.7.10	Three years
7	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSNGQ-019	Changchun Nanguan Housing and Urban-rural Development Bureau (長春市南關區住房和城鄉建設局)	our Company	2019.7.11	Three years
8	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSNGQ-020	Changchun Nanguan Housing and Urban-rural Development Bureau (長春市南關區住房和城鄉建設局)	our Company	2019.7.11	Three years

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No.	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity ⁽³⁾
9	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCS-LYQ-022	Changchun Lvyuan Housing and Urban-rural Development Bureau (長春市綠園區住房和城鄉建設局)	our Company	2019.7.11	Three years
10	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSED016	Changchun Erdao Housing and Urban-rural Development Bureau (長春市二道區住房和城鄉建設局)	our Company	2019.7.12	One year
11	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSNGQ-021	Changchun Nanguan Housing and Urban-rural Development Bureau (長春市南關區住房和城鄉建設局)	our Company	2019.7.12	Three years
12	Urban Heat Supply Enterprise Operation License (城鎮供熱經營企業許可證書)	CCSNGQ-022	Changchun Nanguan Housing and Urban-rural Development Bureau (長春市南關區住房和城鄉建設局)	our Company	2019.7.12	Three years

Engineering Construction

13	Work Safety License (安全生產許可證) ⁽¹⁾	(Ji) JZ An Xu Zheng Zi [2013] 002749-1	Jilin Province Housing and Urban-Rural Construction Department (吉林省住房和城鄉建設廳)	Changchun Runfeng	2013.5.15	2022.4.7
14	Installation, Alteration and Maintenance of Special Equipment License (Pressure Pipeline) Grade GB2(1) (特種設備安裝改造維修許可證(壓力管道))	TS3822195-2022	Jilin Province Quality and Technical Supervision Bureau (吉林省質量技術監督局)	Changchun Runfeng	2018.2.6	2022.2.5

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No.	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity ⁽³⁾
15	Installation, Alteration and Maintenance of Special Equipment License (Boilers) (特種設備安裝改造維修許可證(鍋爐))	TS3122293-2022	Jilin Province Quality and Technical Supervision Bureau (吉林省質量技術監督局)	Changchun Runfeng	2018.1.19	2022.1.18
16	Construction Industry Enterprise Qualification Certificate ⁽¹⁾ (建築業企業資質證書)	D222001280	Jilin Province Housing and Urban-Rural Construction Department (吉林省住房和城鄉建設廳)	Changchun Runfeng	2016.11.21	2021.11.18
17	Construction Industry Enterprise Qualification Certificate (Grade 3 Professional Contractor for Building Mechanical and Electrical Installation Projects) (建築業企業資質證書 (建築機電安裝工程專業承包叁級))	D322002327	Changchun City Urban and Rural Construction Committee (長春市城鄉建設委員會)	Changchun Runfeng	2018.10.31	2021.4.5
18	Occupational Health and Safety Management System Certificate (GB/T 28001-2011/OHSAS18001:2007) (職業健康安全管理体系認證證書) (GB/T 28001-2011/OHSAS18001:2007)	00119S21815 R1M/2200	China Quality Certification Centre (中國質量認證中心)	Changchun Runfeng	2019.8.22	2022.10.11
19	Environmental Management System Certificate (GB/T 24001-2016/ISO14001:2015) (環境管理体系認證證書) (GB/T 24001-2016/ISO14001:2015)	00119E32485 R1M/2200	China Quality Certification Centre (中國質量認證中心)	Changchun Runfeng	2019.8.26	2022.10.11

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No.	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity ⁽³⁾
20	Engineering Construction Organization Quality Management System Certificate (GB/T 19001-2016/ISO9001: 2015 + GB/T 50430-2007) (工程建設施工組織質量管理體系認證證書) (GB/T 19001-2016/ISO9001: 2015 + GB/T 50430-2007)	00119QJ30347 R1M/1100	China Quality Certification Centre (中國質量認證中心)	Changchun Runfeng	2019.8.22	2022.10.11
<i>Engineering Maintenance</i>						
21	Work Safety License (安全生產許可證)	(Ji) JZ An Xu Zheng Zi [2017] 00471-1 (吉) JZ安許證字 [2017]004711	Jilin Province Housing and Urban-Rural Construction Department (吉林省住房和城鄉建設廳)	Changre Maintenance	2018.7.18	2020.5.25
22	Installation, Alteration and Maintenance of Special Equipment License (Boilers) (特種設備安裝改造維修許可證(鍋爐))	TS3122296-2022	Jilin Quality and Technical Supervision Bureau (吉林省質量技術監督局)	Changre Maintenance	2018.6.4	2022.6.3
23	Construction Industry Enterprise Qualification Certificate (建築業企業資質證書) ⁽²⁾	D322037513	Changchun City Urban and Rural Construction Committee (長春市城鄉建設委員會)	Changre Maintenance	2018.7.12	2022.3.29
<i>Design Services</i>						
24	Design License of Special Equipment (Pressure Pipeline) (特種設備設計許可證(壓力管道))	TS1822006-2022	Changchun Bureau of Quality and Technical Supervision (吉林省質量技術監督局)	Heating Engineering Design	2018.9.11	2022.9.10

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No.	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity ⁽³⁾
25	Engineering Design Qualification Certificate (Municipal Sector (Heating Engineering) Grade 2) (工程設計資質證書(市政行業(熱力工程)專業乙級))	A222004882	Jilin Province Housing and Urban-Rural Construction Department (吉林省住房和城鄉建設廳)	Heating Engineering Design	2018.12.12	2020.12.31
26	Quality Management System Certificate (GB/T 19001-2016/ISO9001:2015) (質量管理體系認證證書) (GB/T 19001-2016/ISO9001:2015)	00116Q311161 R2M/2200	China Quality Certification Centre (中國質量認證中心)	Heating Engineering Design	2018.7.17	2019.11.26

Electrical and Instrument Maintenance and Repair

27	Certificate for Examination of Measurement Standard (Standard Assembling of Class 2 Platinum Resistance Thermometer) (計量標準考核證書(二等鉑電阻溫度計標準裝置))	[2009] Chang Zhi Liang Biao Chang Qi Zheng Zi No. 103 ([2009]長質量標長企證字第103號)	Changchun Bureau of Quality and Technical Supervision (長春市質量技術監督局)	Changre Electrical Apparatus	2018.02.26	2021.11.03
28	Certificate for Examination of Measurement Standard (AC/DC Electric Voltage and Current Calibrating Device) (計量標準考核證書(交流電壓，電流錶檢定裝置))	[2009] Chang Zhi Liang Biao Chang Qi Zheng Zi No. 102 ([2009]長質量標長企證字第102號)	Changchun Bureau of Quality and Technical Supervision (長春市質量技術監督局)	Changre Electrical Apparatus	2018.02.26	2021.11.03
29	Certificate for Examination of Measurement Standard (Standard Assembling of Precision Pressure Gauge) (計量標準考核證書(精密壓力錶標準裝置))	[2009] Chang Zhi Liang Biao Chang Qi Zheng Zi No. 101 ([2009]長質量標長企證字第101號)	Changchun Bureau of Quality and Technical Supervision (長春市質量技術監督局)	Changre Electrical Apparatus	2018.02.26	2021.11.03

Notes:

- (1) We are specifically licensed under Construction Industry Enterprise Qualification Certificate to operate as Grade 2 Professional Contractor for Building Decoration Projects; Grade 2 Professional Contractor for Building Facade Construction; Grade 2 Professional Contractor for Electronic and Intelligent Construction; Grade 2 Professional Contractor for Fire Control Facilities Engineering; Grade 2 Professional Contractor for Waterproof and Anticorrosive Insulation Construction; Grade 2 Main Contractor for Municipal Public Construction; Grade 2 Main Contractor for Building Construction; Grade 3 Professional Contractor for Building Mechanical and Electrical Installation Projects.

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- (2) Licensed under Construction Industry Enterprise Qualification Certificate to operate as Grade 3 Main Contractor for Building Construction; Grade 3 Main Contractor for Municipal Public Construction; Grade 3 Main Contractor for Building Mechanical and Electrical Installation Projects.
- (3) We plan to renew our licenses, permits and certificates which will be expired in the coming six months prior to their expiration as permitted and required by the laws and regulations.

Non-compliance

Our Directors, having reviewed the PRC legal opinion, confirm that, we had complied with all relevant PRC laws and regulations in all material respects concerning our operations in the PRC during the Track Record Period and up to the Latest Practicable Date.

LEGAL PROCEEDINGS

We may be involved in disputes or legal proceedings arising from the ordinary course of our business. As at the Latest Practicable Date, there had not been any litigation or arbitration proceedings pending or threatened against us or any of our Directors which could have a material adverse effect on our business, financial condition and results of operations.


CONNECTED TRANSACTIONS

OVERVIEW

Our Directors confirm that the following transactions between our Group and our Controlling Shareholders which will continue after the Listing, will constitute Continuing Connected Transactions for our Company under Chapter 14A of the Listing Rules. These transactions will be subject to annual review, reporting and announcement requirements.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Use of our Controlling Shareholder's trademark under the Trademark License Agreement

We have been using the trademark of our Controlling Shareholder. To continue the use of such trademark after Listing, our Company and our Controlling Shareholder entered into the Trademark License Agreement on 31 December 2018, pursuant to which our Controlling Shareholder agrees to irrevocably grant us license to use the trademark () owned by our Controlling Shareholder within the PRC on a non-exclusive basis, and in Hong Kong on an exclusive basis at nil consideration and for an indefinite term to accommodate our long-term business need. The Trademark License Agreement is irrevocable and therefore our Controlling Shareholder cannot terminate the agreement without our consent.

We have not paid any fees in connection with the use of the aforesaid trademark during the Track Record Period and accordingly no fees was paid in the corresponding period.

Our Directors (including the independent non-executive Directors) confirm that the terms of the Trademark License Agreement are fair and reasonable, on a normal commercial terms or better and in the interests of our Company and our Shareholders as a whole.

As the rights to use the trademark are granted to us on a royalty-free basis, the highest relevant percentage ratios in respect of the license fees paid by our Company to our Controlling Shareholders will be, on an annual basis, less than 0.1%, the transactions under the Trademark License Agreement will qualify as a de minimis continuing connected transactions under Rule 14A.76 of the Listing Rules and will be exempted from the reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Rule 14A.73 of the Listing Rules.

2. Heat supply to our Controlling Shareholder Group

We have been supplying heat to our Controlling Shareholder Group. To continue the supply of heat after Listing, our Company (for itself and on behalf of its subsidiaries) and our Controlling Shareholder (for itself and on behalf of its subsidiaries other than our Group) entered into the Heat Supply Framework Agreement on 17 September 2019, pursuant to which our Company agrees to supply heat to the premises of our Controlling Shareholder Group for a term of 3 years until 31 December 2021. Our Group will enter into separate implementation contracts with our Controlling Shareholder Group in respect of each premises that requires heat supply.

Principal terms and pricing policy

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

- (a) our Group is responsible for supplying heat to our Controlling Shareholder Group;
- (b) our Controlling Shareholder shall inform our Group in advance if heat services are required;
- (c) our Controlling Shareholder Group will enter into separate contracts with our Company in respect of the location, floor area, service term, quality and rate of heat service fee and payment methods; and
- (d) heat rate charged by our Group should not be lower than the rate prescribed by relevant authorities of the state and Jilin Province.

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

Our Directors (including the independent non-executive Directors) confirm that the terms of the Heat Supply Framework Agreement are fair and reasonable, on normal commercial terms or better and in the interests of our Company and our Shareholders as a whole.

Historical transaction amounts

As the premises, where we supplied heat, were included in our consolidated financial statements as Other Retained Assets and Liabilities before the completion of the Reorganization, no heat service income was recorded for the supply of heat to our Controlling Shareholder Group for the years ended 31 December 2016 and 2017. For details, please refer to Note 2.1 of the "Appendix 1 – Accountants' Report" to this prospectus. For the year ended 31 December 2018 and the three months ended 31 March 2019, we recorded an aggregate amount of service income (net of tax) of approximately RMB352,000 and RMB187,000, respectively.

CONNECTED TRANSACTIONS

Our Directors anticipate that the heat service fee payable by our Controlling Shareholder Group to our Group, on an aggregate basis, shall not exceed RMB387,000, RMB387,000 and RMB387,000 for each of the years ending 31 December 2019, 2020 and 2021, respectively.

As the service fees for the heating supply is expected to be less than HK\$3.0 million, and the highest relevant percentage ratios in respect of the service fees paid by our Controlling Shareholder Group to our Company will be, on an annual basis, less than 5.0%, the transactions under the Heat Supply Framework Agreement will qualify as a de minimis continuing connected transactions under Rule 14A.76 of the Listing Rules and will be exempted from the reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Rule 14A.73 of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Provision of construction, maintenance and design services to our Controlling Shareholder Group under the Construction Framework Agreement

Background

Our Group has been providing construction, maintenance and design services to our Controlling Shareholder Group. To continue such services after Listing, our Company (for itself and on behalf of its subsidiaries) and our Controlling Shareholder (for itself and on behalf of its subsidiaries other than our Group) entered into the Construction Framework Agreement on 17 September 2019, pursuant to which our Company agrees to provide construction, maintenance and design services to our Controlling Shareholder Group for a term until 31 December 2021. The services will include engineering construction, engineering maintenance, design services and electrical and instrument maintenance and repair. Our Group will enter into separate implementation contracts with our Controlling Shareholder Group in respect of each project.

Principal terms and pricing policy

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

- (a) our Group is required to provide construction, maintenance and design services to our Controlling Shareholder Group in accordance with the requirements prescribed by our Group;
- (b) our Controlling Shareholder Group will enter into separate contracts with our Company in respect of the services provided by our Group;

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- (c) the service fee of our services and the price of materials used should be determined with reference to the state-prescribed price. Where there is no state-prescribed price, reference will be made to the relevant state-recommended price. Where there is no state-prescribed price and state-recommended price, reference will be made to the regional market price of the same or comparable types of services and/or materials that are offered to independent customers by our Group under normal commercial terms in the ordinary course of business and such price shall be no less favorable to our Group than that offered to independent customers by our Group; and
- (d) For contracts that are required by relevant national and local laws and regulations or government policy that should be concluded after a tendering process, such contract should only be concluded after a tendering process which complies with relevant national laws and regulations.

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

Management procedure to determine the fairness and reasonableness of price and terms

Where there is no state-prescribed price and state-recommended price, and we are required to make reference to regional market price of same or comparable types of services and/or materials, we will adopt the following management procedures to determine the fairness and reasonableness of the price and terms offered to our Controlling Shareholder Group:

- For contracts that require a tendering process: our Group will prepare bidding documents and submit such bidding documents to our Controlling Shareholder Group. Our Group will make reference to recent fee quotes provided to independent customers to ensure that the service fee and materials price offered in the bidding documents is not lower than those offered or quoted to independent customers for similar construction works or materials.
- For contracts that do not require a tendering process: our Group will make reference to recent fee quotes provided to independent customers to ensure that the service fee and materials price offered to our Controlling Shareholder Group is not lower than those offered or quoted to independent customers for similar construction works and materials.

Historical transaction amounts

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we recorded an aggregate amount of service income (net of tax) of approximately RMB0.3 million, RMB2.2 million, RMB46.3 million and RMB7.2 million, respectively, representing approximately 0.1%, 0.2%, 3.2% and 1.3% of our Group's revenue during the corresponding periods. We received a higher income from our Controlling Shareholder Group during the year ended 31 December 2018 because of the maintenance works we did for the boilers and relevant assets of our Controlling Shareholder during the year. Such boiler related

CONNECTED TRANSACTIONS

assets and liabilities were included in our consolidated financial statements before the Reorganization and have been accounted for as a distribution to our Controlling Shareholder as part of the Reorganization. For details, please refer to Note 2.1 of the “Appendix 1 – Accountants’ Report” to this prospectus.

Annual caps and basis

Our Directors estimate that the maximum amount of fee received from our Controlling Shareholder Group in respect of the transactions contemplated under the Construction Framework Agreement will not exceed RMB38.8 million, RMB30.8 million and RMB21.8 million, for each of the three years ending 31 December 2021, respectively.

In arriving at the annual caps, our Directors considered the factors including the historical transaction amounts, existing contracts we entered into with our Controlling Shareholder Group, relevant authorities’ pricing guidelines, the expected construction requirements from our Controlling Shareholder Group, the expected construction and installation costs, the expected material costs.

Implications under the Listing Rules

Since each of the applicable percentage ratios for the transactions contemplated under the Construction Framework Agreement is over 0.1% but less than 5.0%, the transactions contemplated under the Construction Framework Agreement are subject to reporting, annual review as well as announcement but are exempted from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

2. Purchase of pipes from New Model Pipes under the Pipes Supply Agreement

Background

As of the Latest Practicable Date, a wholly-owned subsidiary of our Controlling Shareholder held 35% equity interest in New Model Pipes. Our Group has been purchasing pipes from New Model Pipes from 2017. To continue purchases from New Model Pipes after Listing, our Company (for itself and on behalf of its subsidiaries) and New Model Pipes entered into the Pipes Supply Agreement on 17 September 2019, pursuant to which New Model Pipes agrees to supply pipes for heating supply to our Group for a term until 31 December 2021.

Principal terms and pricing policy

The principal terms and pricing policy under the Pipes Supply Agreement are as follows:

- (a) New Model Pipes is required to supply pipes to our Group in accordance with the requirements prescribed by our Group;

CONNECTED TRANSACTIONS

- (b) New Model Pipes will enter into separate contracts with our Company in respect of our orders for pipes;
- (c) the price charged by New Model Pipes in respect of pipes ordered should be determined with reference to the state-prescribed price. Where there is no state-prescribed price, reference will be made to the relevant state-recommended price. Where there is no state-prescribed price and state-recommended price, reference will be made to the regional market price of the same or comparable types of products that are offered to our Group by independent suppliers under normal commercial terms in the ordinary course of business and such price shall be no less favorable to our Group than that offered by independent suppliers to our Group; and
- (d) for contracts that are required by relevant national and local laws and regulations or government policy that should be concluded after a tendering process, such contract should only be concluded after a tendering process which complies with relevant national laws and regulations.

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

Management procedure to determine the fairness and reasonableness of price and terms

Where there is no state-prescribed price and state-recommended price, and we are required to make reference to regional market price of same or comparable types of products, we will adopt the following management procedures to determine the fairness and reasonableness of the price and terms offered to us by New Model Pipes:

- For contracts that require a tendering process: the pricing of the pipes supplied will depend on the outcome of a competitive bidding process. Our Group will first review and draft the relevant tender invitation documentation and ensure that the terms and conditions required of the bidders, which are set out according to our requirements and the then market practice, comply with the relevant PRC laws on tenders and the internal compliance manuals of our Company. Our management will assess and ensure that all winning bidders comply with the terms and conditions as set out in relevant tender invitation documentation.
- For contracts that do not require a tendering process: our Group will obtain quotations from a sufficient number of independent suppliers for similar products in similar quantities to determine if the price offered by New Pipes Model is fair and reasonable.

CONNECTED TRANSACTIONS

Historical transaction amounts

For the three years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we incurred costs for purchasing pipes from New Model Pipes amounted to, in aggregate, nil, approximately RMB9.0 million, RMB16.5 million and RMB0.3 million, respectively, representing nil, approximately 1.0%, 1.4% and 0.1% of our Group's cost of sales during the corresponding periods.

Annual caps and basis

Our Directors estimate that the maximum amount in respect of the transactions contemplated under the Pipes Supply Agreement will not exceed RMB20.0 million, RMB20.0 million and RMB20.0 million, for the years ending 31 December 2019, 2020 and 2021.

In arriving at the annual caps, our Directors considered the factors including the historical transaction amounts, our expected construction requirements, the expected construction and installation costs, the expected raw material costs.

Implications under the Listing Rules

Since each of the applicable percentage ratios for the transactions contemplated under the Pipes Supply Agreement is over 0.1% but less than 5.0%, the transactions contemplated under the Pipes Supply Agreement are subject to reporting, annual review as well as announcement but are exempted from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Application for waivers

As (i) the Construction Framework Agreement and the Pipes Supply Agreement were entered into prior to the Listing Date and have been disclosed in this prospectus and potential investors of our Company will participate in the Global Offering on the basis of such disclosure; and (ii) the transactions contemplated thereunder are and will continue to be entered into from time to time in the ordinary and usual course of our business on a continuing or recurring basis, our Directors are of the view that strict compliance with the announcement, requirement would be burdensome and would impose unnecessary additional administrative costs to our Company.

Pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Hong Kong Stock Exchange has granted us, waivers from strict compliance with the announcement, circular and independent shareholders' approval requirements of the Listing Rules in respect of the Continuing Connected Transactions as disclosed above in the paragraphs headed "Non-exempt Continuing Connected Transaction" subject to the aggregate value of each of these continuing connected transactions for each financial year not exceeding the relevant annual caps amount set out in this section.

CONNECTED TRANSACTIONS

Nonetheless, we are still subject to the reporting requirements pursuant to Rules 14A.49 and 14A.71 of the Listing Rules and shall disclose the details of the Continuing Connected Transactions under the Construction Framework Agreement and the Pipes Supply Agreement in the annual reports for the three financial years ending 31 December 2021. Upon the expiry of the waiver, we shall re-comply with the applicable requirements in Chapter 14A of the Listing Rules.

Our Directors' views

Our Directors (including our independent non-executive Directors) are of the view that (i) Continuing Connected Transactions contemplated under the Trademark License Agreement, Heat Supply Framework Agreement, the Construction Framework Agreement and the Pipes Supply Agreement have been and shall be entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; (ii) the proposed annual caps in respect of the transactions contemplated under the Construction Framework Agreement and the Pipes Supply Agreement described above are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (iii) considering the significance of the trademark licensed under the Trademark License Agreement to our Group's business and financial position, the entering into the Trademark License Agreement for a period longer than three years is a normal business practice for agreements of this type and beneficial to our Shareholders as a whole as a longer duration of the license term will promote stability in our operation.

Sole Sponsor's view

The Sole Sponsor is of the view that (i) the continuing connected transactions contemplated under the Trademark License Agreement, the Construction Framework Agreement and the Pipes Supply Agreement have been and will be entered into in the ordinary and usual course of our Group's business, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of our Group and the Shareholders as a whole; (ii) the proposed annual caps in respect of the transactions contemplated under the Construction Framework Agreement and the Pipes Supply Agreement described above are fair and reasonable and in the interests of our Group and the Shareholders as a whole; and (iii) considering the significance of the trademark licensed under the Trademark License Agreement to our Group's business and financial position, the entering into the Trademark License Agreement for a period longer than three years is a normal business practice for agreements of this type and beneficial to the Shareholders as a whole as a longer duration of the license term will promote stability in our Group's operation.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

BACKGROUND OF OUR CONTROLLING SHAREHOLDER

Our Controlling Shareholder, Changchun Heating Group is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by SASAC Changchun. Immediately upon completion of the Global Offering assuming that the Over-allotment Option will not be exercised at all, our Controlling Shareholder, will hold approximately 69.75% of our issued share capital, and will remain as our Controlling Shareholder.

Before the Reorganization, our Controlling Shareholder was principally engaged in the business of heat production, provision of heating services, heating engineering designs, heating facilities and pipelines construction and maintenance. Pursuant to the Reorganization, Changchun Heating Group injected its principal business assets in relation to heat supply and the relevant construction, maintenance and design services (which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair) into our Company. For more details about the Reorganization, please refer to the section headed “History, Development and Reorganization – Reorganization” in this prospectus.

After the Reorganization, our Controlling Shareholder focuses on other business operations, namely, property management, water supply, pipeline manufacturing, sale of industrial steam and financial investments. However, our Controlling Shareholder retains certain businesses relating to heat supply and heat services (i.e. Excluded Businesses).

Our Controlling Shareholder has confirmed that, save for its interests in the Excluded Businesses, it does not have any interest in a business which competes or is likely to compete with our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

THE EXCLUDED BUSINESSES AND REASONS FOR EXCLUSION

Apart from the businesses of our Group, our Controlling Shareholder, through itself and various companies controlled by it, is interested/involved in some other businesses similar to our business, including but not limited to, (1) the Three Supplies and Property Management Operations; (2) the Excluded Heat Supply in the PRC; and (3) the Ancillary Businesses (collectively, the Excluded Businesses). Details of the Excluded Businesses held by our Controlling Shareholder as at the Latest Practicable Date are as follows:

(1) Three Supplies and Property Management Operations (“三供一業”業務)

Due to historical reasons, many state-owned enterprises in the PRC also engage in heat supply (including gas supply), water supply, electricity supply and property management services (i.e. Three Supplies and Property Management) as side businesses, which may lead to lower efficiency. As such, MOF and SASAC implemented the Three Supplies and Property Management Policy to segregate Three Supplies and Property Management Operations from these state-owned enterprises to enterprises which are specialized to provide such services, so that such state-owned enterprises could concentrate on its principal businesses.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Pursuant to the Three Supplies and Property Management Policy, our Controlling Shareholder began to take part in the Three Supplies and Property Management Operations from certain state-owned enterprises. Since the promulgation of the Three Supplies and Property Management Policy and up to the Latest Practicable Date, our Controlling Shareholder has entered into a transfer agreement with Shenyang Railway Bureau (瀋陽鐵路局) in 2017 for the transfer of their Three Supplies and Property Management Operations and assets relating to such operations to our Controlling Shareholder, and has participated in the heat supply operations formerly operated by Shenyang Railway Bureau (瀋陽鐵路局).

All of the assets and heat supply operations to be transferred to our Controlling Shareholder are located in the Northeast China, including Jilin Province, Heilongjiang Province and Inner Mongolia. As at the Latest Practicable Date, our Controlling Shareholder has already participated in the heat supply operations formerly operated by Shenyang Railway Bureau (瀋陽鐵路局).

However, our Controlling Shareholder has not been able to acquire the title of any of these assets and/or heat supply operations, pending completion of government approval procedures. Accordingly, our Controlling Shareholder does not have the legal ownership in such assets and/or heat supply operations, and such Heat Operating Entities are now excluded from our Group. It is expected that the government approval procedures for the transfer of assets will be completed by the end of 2020. Subject to the exercise our right to acquire the Excluded Businesses as granted to us under the Non-Competition Agreement, it is the intention of our Controlling Shareholder to inject the Heat Operating Entities into our Group after the completion of the transfer of such assets to the Heat Operating Entities. For details of our right to acquire the Excluded Businesses, please refer to the paragraphs headed “Non-Competition Agreement – Right to acquire the Excluded Businesses” in this section.

Our Controlling Shareholder has established Heat Operating Entities in various locations to facilitate itself to participate in the Three Supplies and Property Management Operations formerly operated by Shenyang Railway Bureau (瀋陽鐵路局). The table below sets out the names of the Heat Operating Entities of our Controlling Shareholder as of the Latest Practicable Date and brief descriptions of the Three Supplies and Property Management Operations operated by respective entities:

Name of the Heat Operating Entities	Three Supplies and Property Management Operations operated	Location(s)
1. Changre Group Jilin Changtie Public Utilities Co., Ltd.* (長熱集團吉林長鐵公用事業有限公司)	Heat supply and water supply	Jilin Province (Changchun City) ^(Note)

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

	Name of the Heat Operating Entities	Three Supplies and Property Management Operations operated	Location(s)
2.	Jilin Heating Group Public Utilities Co., Ltd.* (吉林省熱力集團吉林市公用事業有限公司)	Heat supply, water supply and property management	Jilin Province (Jilin City and Jiaohe City)
3.	Baicheng City Heating Group Public Utilities Co., Ltd.* (吉林省熱力集團白城市公用事業有限公司)	Heat supply, water supply and property management	Jilin Province (Baicheng City), Inner Mongolia (Xing'an Meng), Heilongjiang Province (Daqing City)
4.	Changre (Yanbianzhou) Public Utilities Group Co., Ltd.* (長熱(延邊州)公用事業集團有限公司)	Heat supply, water supply and property management	Jilin Province (Yanji City, Tumen City, Longjing City, Dunhua City and Ningan City)
5.	Jilin Tonghua Heating Group Public Utilities Co., Ltd.* (吉林省熱力集團通化市公用事業有限公司),	Heat supply, water supply and property management	Jilin Province (Tonghua City, Baishan City and Fusong City)
6.	Jilin Meihekou Heating Group Public Utilities Co., Ltd.* (吉林省熱力集團梅河口市公用事業有限公司),	Heat supply, water supply and property management	Jilin Province (Meihekou City and Liaoyuan City)
7.	Inner Mongolia Changre Heating Co., Ltd.* (內蒙古長熱熱力有限公司)	Heat supply, water supply and property management	Inner Mongolia (Chifeng City and Tongliao City),
8.	Inner Mongolia Chuncheng Heating Services Co., Ltd.* (內蒙古春城熱力服務有限公司)	Heat supply, water supply and property management	Inner Mongolia (Tongliao City)
9.	Jire Group Tumen Public Utilities Co., Ltd.* (吉熱集團圖們市公用事業有限公司)	Heat supply, water supply and property management	Jilin Province (Tumen City)

Note: It principally supplies heat to buildings at or near to railway stations in Changchun which has no overlapping of the heat service area and pipeline network of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Based on the preliminary management accounts of the Heat Operating Entities, the aggregate revenue, gross profit and net loss of the Heat Operating Entities for the year ended 31 December 2018 were approximately RMB245.7 million, RMB0.5 million and RMB16.8 million, respectively. As the transfer of assets and/or heat supply operations under Three Supplies and Property Management Operations to our Controlling Shareholder had not been completed, these Heat Operating Entities did not hold any material assets and/or titles to the heat supply operations as at 31 December 2018.

(2) Excluded Heat Supply in the PRC

Heat Supply to automobile development zone by Datang JV

As at the Latest Practicable Date, our Controlling Shareholder held 35% equity interest in Datang JV. The remaining 65% equity interest was held by Datang Jilin Power Generation Co., Ltd. (大唐吉林發電有限公司), an Independent Third Party of our Company. Datang JV principally engages in heat supply to the automobile development zone in Changchun City, which is different from the heat service area of our Group.

Based on the preliminary management accounts of Datang JV, Datang JV's revenue, gross profit and net profit for the year ended 31 December 2018 were approximately RMB127.6 million, RMB256,000 and RMB140,000, respectively, and Datang JV's total asset as at 31 December 2018 was approximately RMB1,504.4 million.

Datang JV is excluded from our Group because our Controlling Shareholder does not have a controlling interest in the Datang JV and the majority shareholder, Datang Jilin Power Generation Co., Ltd. (大唐吉林發電有限公司), did not agree to our Controlling Shareholder transferring its 35% equity interest in Datang JV to our Company.

Heat supply to the automobile development zone operated by the Lvxin Division of our Controlling Shareholder

Our Controlling Shareholder is operating Lvxin Division. Lvxin Division is primarily engaged in heat supply to the automobile development zone in the western part of Changchun City.

Based on the preliminary management accounts of our Controlling Shareholder, our Controlling Shareholder's revenue, gross loss and net loss from Lvxin Division for the year ended 31 December 2018 were RMB25.8 million, RMB0.7 million and RMB3.4 million, respectively, and Controlling Shareholder's total asset in respect of Lvxin Division as at 31 December 2018 was approximately RMB34.0 million.

The heat supply operation of Lvxin Division was previously operated by another company, which is an Independent Third Party, and certain assets (including certain parts of the underground pipelines) currently being used by our Controlling Shareholder in its heat supply operation of Lvxin Division are owned by that company, of which its

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

shareholders had a legal dispute as to their shareholding in that company in recent years. Our Controlling Shareholder is concerned that the shareholders' dispute of that company has not been fully resolved, and an immediate transfer of such assets to our Controlling Shareholder may bring legal and operational risks to our Controlling Shareholder. Therefore, relevant works to transfer such assets to our Controlling Shareholder has not commenced. Accordingly, our Controlling Shareholder currently does not have a clear title to transfer such heat supply operation to our Company. Our Controlling Shareholder will commence relevant works in 2020 to disentangle the title of the assets used in the Lvxin Division in accordance with relevant state-owned assets regulations, and will have the issue resolved in the manner agreed by SASAC Changchun. Subject to the exercise of our right to acquire the Excluded Businesses as granted to us under the Non-Competition Agreement, it is the intention of our Controlling Shareholder to inject such business operations into our Group once the title of the assets is clear and the assets have been transferred to our Controlling Shareholder. For details of our right to acquire the Excluded Businesses, please refer to the paragraphs headed "Non-Competition Agreement – Right to acquire the Excluded Businesses" in this section.

Heat Supply operation entrusted to Jilin Heating Group by Bairun Heating (entrustment arrangement ceased on 10 April 2019)

As of the Latest Practicable Date, our Controlling Shareholder held the entire equity interest in Jilin Heating Group. Jilin Heating Group entered into an operation entrustment agreement with Bairun Heating, pursuant to which Jilin Heating Group was entrusted to operate and manage Bairun Heating's heat supply operation in Songyuan City (松原市) of the Jilin Province from September 2018 until 10 April 2019. Jilin Heating Group was entitled to receive half of the profits from the entrusted heat supply operation as service fee under this agreement.

Jilin Heating Group's entrusted heat supply operation for Bairun Heating is excluded from our Group because the entrustment is an one-off arrangement between Jilin Heating Group and Bairun Heating and our Controlling Shareholder did not renew this entrustment agreement after 10 April 2019.

(3) Ancillary Businesses

Construction of and power and heat cogeneration business of Mishazi Cogeneration Plant

We entered into the Mishazi Agreements on 3 August 2018 and 15 March 2019, pursuant to which our Controlling Shareholder is responsible for the construction of the Mishazi Cogeneration Plant while our Company is responsible for the construction of the primary heat distribution network outside the Mishazi Cogeneration Plant which delivers the residual heat from the Mishazi Cogeneration Plant to heat service areas in Mishazi County (米沙子鎮), Dehui City, Changchun, Jilin Province.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

The construction of Mishazi Cogeneration Plant will take place in Mishazi County which is expected to complete in 2020. The Mishazi Cogeneration Plant will be biomass-fired and the residual heat from such power generation can be used for heat supply purpose. A feasibility report has been prepared which is subject to government approval.

Upon the completion of the Mishazi Cogeneration Plant, our Company will be responsible for the supply of heat to Mishazi County. For such purpose, we intend to purchase the residual heat generated from the Mishazi Cogeneration Plant for our heat supply, and comply with any connected transaction requirements under the Listing Rules as and when appropriate.

The construction of Mishazi Cogeneration Plant and the power generation business are still in its planning stage, and therefore there is no meaningful financial and operating data as at the Latest Practicable Date.

The construction of the Mishazi Cogeneration Plant, the power generation and the heat generation businesses are excluded from our Group because they are not consistent with our business strategy to focus on heat supply.

Manufacture and sales of pipes by New Model Pipes

As at the Latest Practicable Date, a wholly-owned subsidiary of our Controlling Shareholder held 35% equity interest in New Model Pipes. New Model Pipes principally engages in manufacture and sales of pipes, which can be used for drainage, water supply, gas supply and heat supply.

Based on the preliminary management accounts of New Model Pipes, the revenue, gross profit and net profit of New Model Pipes for the year ended 31 December 2018 were approximately RMB39.9 million, RMB13.6 million and RMB3.1 million, respectively, and the total asset of New Model Pipes as at 31 December 2018 was approximately RMB107 million.

New Model Pipes is excluded from our Group because our Controlling Shareholder does not have a controlling interest in this entity. New Model Pipes also designs and manufactures pipes for other uses, such as gas supply and water supply, which goes beyond our scope of business and is not consistent with our business strategy to focus on heat supply.

BUSINESS DELINEATION AND EXTENT OF COMPETITION

Characteristics of heat supply operations

We believe the characteristics of heat supply operations are the center of the analysis of the business delineation and the extent of competition between the Excluded Businesses and our Group. Heat supply operations are operated through established pipeline networks which require substantial capital input and there are generally no repeated construction within a designated area. Accordingly, residents within the area of a specified heat supply network generally do not have the option of choosing another service provider. Given that customers are located in area covered by different pipeline networks, there is generally no overlap of customers between the Excluded Businesses and the heat operations of our Group. Therefore, there is no or very limited competition within specific geographical locations between the Excluded Businesses owned by our Controlling Shareholder and the heat supply operations of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Summary of major differences between our Group and the Excluded Businesses

The following table sets out a brief summary of the major differences (e.g. business models) between the business of our Group and that of the Excluded Businesses which illustrates the business delineation between them:

	Our Group	Three Supplies and Property Management Operations	Heat supply to automobile development zone by Datang JV	Heat supply to automobile development zone by Lvxin Division	Construction of and power and heat cogeneration business of Mishazi Cogeneration Plant	Manufacture and sales of pipes by New Model Pipes
Operating entities	Our Group	Heat Operating Entities	Datang JV	Our Controlling Shareholder	Our Controlling Shareholder	New Model Pipes
Interest attributable to our Controlling Shareholder	N/A	100% ^(Note 4)	35%	100%	100%	35%
Principal business	Heat supply	Heat supply, water supply and property management	Heat supply	Heat supply	Construction of a cogeneration power plant, which also generates heat	Manufacture and sales of pipes for drainage, water supply, gas supply and heat supply
Geographical locations	Generally over Changchun city; and supply heat using pipelines different from that of the Excluded Businesses	Primarily outside Changchun city; and supply heat using pipelines different from that of our Group	Within a development zone in the Changchun city; and supply heat using pipelines different from that of our Group	Within the automobile development zone, of Changchun city; and supply heat using pipelines different from that of our Group	Mishazi County, Dehui City, Changchun, Jilin Province	Changchun City, Jilin Province
Total service areas (as of 31 December 2018) (approx.)	38,470,000 sq.m.	9,818,500 sq.m.	11,200,000 sq.m.	1,235,000 sq.m.	N/A	N/A
Major customers	Users within our own service areas and pipeline networks	Users within its own service areas and pipeline networks. Generally no overlap with our customers	Users within its own service areas and pipeline networks. Generally no overlap with our customers	Users within its own service areas and pipeline networks. Generally no overlap with our customers	N/A	Including our Group

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

	Our Group	Three Supplies and Property Management Operations	Heat supply to automobile development zone by Datang JV	Heat supply to automobile development zone by Lyxin Division	Construction of and power and heat cogeneration business of Mishazi Cogeneration Plant	Manufacture and sales of pipes by New Model Pipes
Major suppliers	For details, please refer to the "Business – Suppliers"	Currently, no overlap with our major suppliers (<i>Note 3</i>)	No overlap with our major suppliers	No overlap with our major suppliers	N/A	N/A
Overlap with our Core Management	Our executive Directors and senior management	No overlap with our executive Directors and senior management, who participate in day-to-day operation	No material overlap with our executive Directors and senior management, who participate in day-to-day operation (<i>Note 1</i>)	No material overlap with our executive Directors and senior management, who participate in day-to-day operation (<i>Note 2</i>)	No material overlap with our executive Directors and senior management, who participate in day-to-day operation (<i>Note 2</i>)	No overlap with our executive Directors and senior management, who participate in day-to-day operation
Strategy, growth and expansion plan	Please refer to the "Business – Suppliers" for details	No immediate expansion plans and will be injected into our Group after our Controlling Shareholder has taken ownership of the underlying assets (<i>Note 5</i>)	Datang JV primarily supply heat to the users within the area of the automobile development zone in Changchun, which is different from the heat service area of our Group	No immediate expansion plans and will be injected into our Group when the legal disputes are settled and title of the assets is clear (<i>Note 5</i>)	-	-

Notes:

1. Mr. SHI Mingjun, our Executive Director, is a non-executive director of the Datang JV.
2. Mr. LIU Changchun, our chairman who is also a non-executive Director of our Company, is an executive director and the chairman of our Controlling Shareholder. Mr. YANG Zhongshi, our executive Director, is a non-executive director in our Controlling Shareholder.
3. There was overlap of suppliers in the past because the Group also used coal to generate heat using boilers.
4. Our Controlling Shareholder holds the entire interest in the Heat Operating Entities, but the transfer of the assets and/or heat supply operations relating to the Three Supplies and Property Management Operations is now in progress, pending the completion of government approval procedures.
5. Subject to the exercise of our right to acquire the Excluded Businesses by us. For details, please refer to the paragraphs headed "Non-Competition Agreement – Right to acquire the Excluded Businesses" in this section.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Business delineation and extent of competition

(1) Three Supplies and Property Management Operations

The Three Supplies and Property Management Operations of the Heat Operating Subsidiaries mainly supply heat to certain offices and civil buildings of the state-owned enterprises. As disclosed in this section, such businesses were previously owned and/or operated primarily by Shenyang Railway Bureau (瀋陽鐵路局). Our Controlling Shareholder has already participated in these Three Supplies and Property Management Operations through the Heat Operating Entities but has not been able to acquire these assets because the government approval for the transfer of the asset of these Heat Operating Entities to our Controlling Shareholder is pending. Therefore, our Controlling Shareholder does not have the legal ownership to transfer such Heat Operating Entities and/or assets to our Group.

Despite the fact that the Heat Operating Entities also operate heat supply, our Directors are of the view that there is a clear delineation between the Heat Operating Entities and the businesses of our Group; and that our Group can carry on businesses independently of our Controlling Shareholder after the Listing and will be operationally and financially independent from our Controlling Shareholder, on the following basis:

- (i) as a characteristics of heat supply operations, heat supply operation typically involves provision of services within a certain area through an established pipeline network which requires substantial capital input and there are generally no repeated construction within a designated area (as illustrated in the paragraph headed “Business Delineation and Extent of Competition – Characteristics of heat supply operations” in this section);
- (ii) the assets and/or heat supply operations to be transferred to the Heat Operating Entities of our Controlling Shareholder are made pursuant to the Three Supplies and Property Management Policy (which relevant procedures are in progress) and were not developed by our Controlling Shareholder;
- (iii) the customers of Heat Operating Entities are principally occupants in the offices and civil buildings of state-owned enterprises primarily outside Changchun City (while the customers of our Group’s heat supply business are residents of Changchun City);
- (iv) there are other dissimilarities between the Heat Operating Entities and those of our Group in terms of geographical locations, operation scale (i.e. heat service area), major suppliers, strategy, growth and expansion plan (as illustrated in the paragraph headed “Business Delineation and Extent of Competition – Summary of major differences between our Group and the Excluded Businesses” in this section);
- (v) none of our executive Directors and senior management acts as an executive director or involved in the daily operation and management of the Heat Operating Entities as at the Latest Practicable Date; and

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- (vi) none of the executive directors and senior management of the Heat Operating Entities acts as an executive Director of our Company or is involved in the daily operation and management of our Company as at the Latest Practicable Date.

Our Directors are of the view that even though Heat Operating Entities may compete with our Group's business in some respect but such competition does not and is unlikely to have a material adverse effect on the businesses of our Group, because:

- (i) the characteristics of heat supply operation that residents within an area of specified heat supply network generally do not have the option of choosing another service provider (as illustrated in the paragraph headed "Business Delineation and Extent of Competition – Characteristics of heat supply operations" in this section); and
- (ii) the relatively smaller operation scales of Heat Operating Entities as compared to our businesses in terms of total service areas.

(2) Excluded Heat Supply in the PRC

Despite the fact that the Excluded Heat Supply in the PRC is also a business of heat supply, our Directors are of the view that there is a clear delineation between the Excluded Heat Supply in the PRC and the businesses of our Group; and that our Group can carry on businesses independently of the Excluded Heat Supply in the PRC after the Listing and will be operationally and financially independent from our Controlling Shareholder, on the following basis:

- (i) as a characteristics of heat supply operations, heat supply operation typically involves provision of services within a certain area through an established pipeline network which requires substantial capital input and there are generally no repeated construction within a designated area (as illustrated in the paragraph headed "Business Delineation and Extent of Competition – Characteristics of heat supply operations" in this section);
- (ii) while it is our business focus to provide heat supply in Changchun City through our self-owned pipeline networks, our Controlling Shareholder only holds a minority interest in Datang JV as to 35%;
- (iii) there are other dissimilarities between the Excluded Heat Supply in the PRC and those of our Group in terms of geographical locations, operation scale (i.e. heat service area), major customers, major suppliers, strategy, growth and expansion plan (as illustrated in the paragraph headed "Business Delineation and Extent of Competition – Summary of major differences between our Group and the Excluded Businesses" in this section);

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- (iv) none of our executive Directors and senior management acts as an executive director or involved in the daily operation and management of the Excluded Heat Supply in the PRC as at the Latest Practicable Date; and
- (v) none of our executive directors and senior management of the Excluded Heat Supply in the PRC acts as an executive Director of our Company or is involved in the daily operation and management of our Company as at the Latest Practicable Date.

Our Directors are of the view that even though Excluded Heat Supply in the PRC may compete with our Group's business in some respect but such competition does not and is unlikely to have a material adverse effect on the businesses of our Group, because:

- (i) the characteristics of heat supply operation that residents within an area of specified heat supply network generally do not have the option of choosing another service provider (as illustrated in the paragraph headed "Business Delineation and Extent of Competition – Characteristics of heat supply operations" in this section); and
- (ii) the relatively smaller operation scales of Excluded Heat Supply in the PRC as compared to our businesses in terms of total service areas.

(3) *Ancillary Businesses*

Our Directors are of the view that there is a clear delineation between the Ancillary Businesses and the businesses of our Group; and that our Group can carry on businesses independently of the Ancillary Businesses after the Listing and will be operationally and financially independent from our Controlling Shareholder, because such businesses are not within our scope of business and are not consistent with our business strategies to focus on heat supply. In addition, none of our executive Directors and senior management acts as an executive director or involved in the daily operation and management of the Ancillary Businesses as at the Latest Practicable Date.

For the differences between our Group and the Ancillary Businesses illustrated above, our Directors consider that the inclusion of our Controlling Shareholder interests in the Ancillary Businesses into our Group does not necessarily result in any synergy effect between Ancillary Businesses and our Group.

As our Group does not engage in construction of power cogeneration plant nor engage in the manufacturing and sales of pipes, and given that the Ancillary Businesses are ancillary to our principal businesses only, our Directors are of the view that our Controlling Shareholder's Ancillary Businesses do not compete with our Group's businesses.

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Our Group is capable of carrying on our own businesses independently of, and at arm's length from, these Excluded Businesses as more particularly illustrated in the paragraph headed "Independence from our Controlling Shareholder" below.

Our Directors have confirmed that to the best of their knowledge, information and belief, as at the Latest Practicable Date, save as the Excluded Businesses, none of our Controlling Shareholder nor Directors and any of their respective associates has interest in business, other than the businesses of our Group, which may directly or indirectly compete against the businesses of our Group.

Overlapping of directors and conflicts of interest management

As disclosed in the above, three of our Directors (namely, Mr. LIU Changchun, Mr. YANG Zhongshi and Mr. SHI Mingjun) also hold directorships in the entities comprising the Excluded Businesses of our Controlling Shareholder.

As a measure to manage and avoid potential conflict of interest arising out of any transactions to be entered into between our Group and the Excluded Businesses of our Controlling Shareholder, interested Directors should abstain from voting and should not attend or be included in the quorum of the meeting of the Board. For details of our management independence and conflicts of interest management measures adopted, please refer to the paragraphs headed "Non-competition Agreement" and "Independence from our Controlling Shareholder – Management independence and conflicts of interest management" in this section.

Pursuant to the Non-competition Agreement, we have (i) the right to acquire any or all of the Excluded Businesses (except for our Controlling Shareholder's equity interest in Datang JV which is subject to the consent of the majority shareholder of Datang JV) at any time, and (ii) the right of first offer to acquire any or all of the Excluded Businesses (except for our Controlling Shareholder's equity interest in Datang JV which is subject to the consent of the majority shareholder of Datang JV), so that our Group will have the flexibility to include such businesses into our Group as and when we deem appropriate.

NON-COMPETITION AGREEMENT

Non-competition in the industry

We entered into a Non-competition Agreement with our Controlling Shareholder on 17 September 2019, pursuant to which our Controlling Shareholder agreed that (i) save and except for the Excluded Businesses disclosed above, it will not engage in any business that competes or is likely to compete, directly or indirectly, with our business within or outside PRC, and will procure its subsidiaries (excluding our Group) not to engage in any business that competes or is likely to compete, directly or indirectly, with our business, and (ii) it will inform us of any new business opportunities which compete or are likely to compete and use its best efforts to procure such opportunities be made available to us.

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Our Controlling Shareholder has also undertaken in the Non-competition Agreement that during the term of such deed, it will not, and will procure its subsidiaries not to:

- directly or indirectly engage in or participate in, or assist others to engage in or participate in, (whether alone or jointly with other persons), any business in any form (including but not limited to investment, mergers and acquisitions, joint operations, joint venture, cooperation agreement, partnership, contractor agreement, lease or purchase of shares of listed or private companies), that competes, or is likely to compete with our business; or
- assist any entity other than our Group to engage in business that competes, or is likely to compete, with our business, whether within or outside the PRC.

The above non-competition undertaking does not apply where our Controlling Shareholder or its subsidiaries through securities investment, hold in aggregate no more than 10% equity interest in a listed company, whose business competes or is likely to compete with our business.

New Business Opportunities

Pursuant to the Non-competition Agreement, our Controlling Shareholder has undertaken that, during the term of the Non-competition Agreement, if our Controlling Shareholder or its respective subsidiaries (for the purpose of the Non-competition Agreement, excluding our Group) becomes aware of any new business opportunities which compete or are likely to compete, directly or indirectly, with our business (the “**New Business Opportunities**”), it shall immediately notify our Company in writing of the New Business Opportunities (the “**Offer Notice**”) and use its best efforts to procure the New Business Opportunities be made available to our Company or our subsidiaries on fair and reasonable terms and conditions. Our Company shall promptly (in any case no later than 20 business days from receipt of the Offer Notice) notify our Controlling Shareholder in the event that our Company decides not to take up the New Business Opportunities, and our Controlling Shareholder can then take up such New Business Opportunities.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up the New Business Opportunities. Any Directors who have an interest shall abstain from voting. In assessing whether or not to exercise the right to acquire the New Business Opportunities, our Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our Group’s business and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of our Shareholders and our Group as a whole.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Right of first offer

Pursuant to the Non-competition Agreement, our Controlling Shareholder has undertaken that during the term of the Non-competition Agreement, save for the transfer of our Controlling Shareholder's equity interest in Datang JV which is subject to the consent of the majority shareholder of Datang JV, if it intends to transfer, sell, lease, license or otherwise dispose of any of the Excluded Businesses or any other entity that competes or is likely to compete with our business to any third parties, it shall immediately notify our Company in writing of its intention (the "**Selling Notice**") and procure all necessary information to facilitate an investment decision be made available to our Company.

Our Board (based on the opinions of our independent non-executive Directors) will decide whether or not to acquire the Excluded Businesses or any other entity (except for our Controlling Shareholder's equity interest in Datang JV which is subject to the consent of the majority shareholder of Datang JV). Our Company will notify our Controlling Shareholder in writing within 20 business days from the date of the Selling Notice whether we wish to acquire the relevant Excluded Businesses or such entities or not.

Before we provide our written reply within the requisite timeframe, our Controlling Shareholder shall not transfer, sell, lease, license or otherwise dispose of the relevant Excluded Businesses or the entities to any third parties. If we decide not to or fail to reply within the requisite timeframe, our Controlling Shareholder may transfer, sell, lend or license the relevant Excluded Businesses or the project companies to any third parties on the terms no more favorable than those stated in the Selling Notice.

If we decide not to accept the terms and conditions stated in the Selling Notice, we are entitled to propose our acceptable terms to our Controlling Shareholder. If our Controlling Shareholder do not accept the terms we proposed, our Controlling Shareholder can proceed to transfer, sell, lease, license or otherwise dispose of the relevant Excluded Businesses or its entities to any third parties on the terms no more favorable than those stated in the Selling Notice.

Right to acquire the Excluded Businesses

Our Controlling Shareholder has granted us a right, which is exercisable during the term of the Non-competition Agreement, to acquire, save for the transfer of our Controlling Shareholder's equity interest in Datang JV which is subject to the consent of the majority shareholder of Datang JV, any of their respective interests in the Excluded Businesses. We may exercise such right to acquire any Excluded Businesses (except for our Controlling Shareholder's equity interest in Datang JV which is subject to the consent of the majority shareholder of Datang JV) from our Controlling Shareholder at any time whether or not our Controlling Shareholder intends to dispose of its interests in such Excluded Businesses. Pursuant to the Non-Competition Agreement, the consideration in respect of the acquisition of any Excluded Businesses by us from our Controlling Shareholder shall be evaluated by a third

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party appraiser according to the PRC laws and regulations, and the exercise of such right to acquisition shall be approved by our independent non-executive Directors. Our Group expects that the following factors would be taken into consideration when making such determination:

- (i) the development and conditions of relevant Excluded Businesses;
- (ii) the financial positions and performance of relevant Excluded Businesses;
- (iii) our financial condition;
- (iv) our business expansion plan (if any); and
- (v) such other relevant factors or considerations as our independent non-executive Directors consider necessary or appropriate.

For this purpose, our Controlling Shareholder agrees to provide relevant information as required by our independent non-executive Directors, including but not limited to the conditions, relevant operation licenses and financial results of the Excluded Businesses. After considering the relevant information provided by our Controlling Shareholder and for the interest of our shareholders as a whole, we may not exercise our right to acquire the Excluded Businesses under the Non-Competition Agreement if the acquisition of such Excluded Businesses will have material adverse impact on the financial position and the performance of our Group.

Other terms and conditions of specific acquisitions of Excluded Businesses are not fixed in the Non-competition Agreement. If we decide to exercise our right, other terms and conditions for the acquisition will be determined after arm's length negotiation.

The exercise of our right to acquire the Excluded Businesses shall also be subject to compliance by us and our Controlling Shareholder with all applicable laws of the PRC as well as the applicable requirements under the Listing Rules.

Further undertakings

Pursuant to the Non-competition Agreement, our Controlling Shareholder has further undertaken, among other things, that:

- (1) it shall not disclose any confidential or trade-sensitive information of our Group to any person or use any of such information for advancing their business without our written consent;

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- (2) it shall not solicit any customer of our Group (whether past, present or future) to enter into any sales or business contract. It shall conduct conflict check with every new customer before entering into any agreement in order to ensure each of them will not enter into any sales or business contract with any customer of our Group (whether past, present or future);
- (3) it shall, upon request of our independent non-executive Directors, provide our independent non-executive Directors with all information necessary for their review of compliance with and implementation of the Non-competition Agreement by our Controlling Shareholder and its respective subsidiaries;
- (4) it shall keep us informed and shall procure their respective subsidiaries to provide all information required by our Board to assist them in their consideration of any New Business Opportunities;
- (5) it agrees that our Company will disclose the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-competition Agreement in our annual reports or announcements;
- (6) it shall provide a declaration annually on compliance with the terms of the Non-competition Agreement to our Company to facilitate our making of relevant disclosure in our annual reports;
- (7) it shall indemnify our Group against any loss resulting from any breach of the non-competition undertakings by our Controlling Shareholder or its respective subsidiaries; and
- (8) it shall conduct conflict checks with its customers before entering into any agreement with them in order to ensure that they will not enter into any sales or business contract or concession agreement with customers of any companies (whether past, present or future) in contravention of the non-competition undertakings.

Termination

The Non-competition Agreement shall continue to be effective until the earlier of the occurrence of the following situations:

- (1) the date on which our Controlling Shareholder and its subsidiaries, in aggregate, directly or indirectly hold less than 30% of the entire issued share capital of our Company; or
- (2) the date on which the H Shares cease to be listed on the Hong Kong Stock Exchange, except that trading in the H Shares is temporarily suspended for any reason.

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CORPORATE GOVERNANCE MEASURES


We will also adopt the following corporate governance measures to ensure that the undertakings under the Non-competition Agreement are observed:

- (i) our Company will provide written notices to our independent non-executive Directors in respect of the New Business Opportunities passed on to us by our Controlling Shareholder within three days from the receipt of such notices;
- (ii) our independent non-executive Directors will report and conduct an annual review, and we will disclose in our annual reports or announcements, the findings, decisions and the basis of any decisions made by our independent non-executive Directors on the compliance by our Controlling Shareholder with and implementation of the Non-competition Agreement, as well as the reason why any New Business Opportunities, if any, have not been taken up; and
- (iii) our Directors are of the view that our independent non-executive Directors have sufficient experience in assessing whether or not to pursue any New Business Opportunities. If our independent non-executive Directors consider that approvals from our independent Shareholders are required for such opportunity under the Listing Rules, they may appoint an independent financial advisor or other professionals, at our expense, to advise on the suitability of exercising our rights under the Non-competition Agreement.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the following factors, we believe that following the Global Offering, we can conduct our business independently from our Controlling Shareholder and their respective associates.

Operational independence

We are currently using a trademark () owned by our Controlling Shareholder. Pursuant to the Trademark License Agreement dated 31 December 2018, we are authorized to use the trademark on a free-of-charge basis exclusively in Hong Kong and non-exclusively in the PRC. Because our Company is a public utility company, our Company enjoys a high entry barrier in its own service areas and the users generally do not have the option of choosing another service provider, our Company does not consider that the trademark is part of the material assets within the business operations of our Company. For details, please refer to the section headed “Connected Transactions – Fully exempt continuing connected transactions” in this prospectus. In addition, our Company is leasing certain properties from our Controlling Shareholder as office premises. Our Company believes that it would not over rely on our Controlling Shareholder as there would be alternative locations available.

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As a characteristics of heat supply operations, which typically involves provision of heat within a certain area through an established pipeline network, residents within an area generally do not have the option of choosing another service provider. As such, there is generally no overlap of customers. And as we generally supply heat using our self-owned pipelines independent from our Controlling Shareholder and we purchase heat from local cogeneration plants which are Independent Third Parties, our Directors believe that our operation does not depend on our Controlling Shareholder. For details, please refer to the paragraph headed “Business Delineation and Extent of Competition – Characteristics of heat supply operations” in this section.

During the Track Record Period, our Controlling Shareholder acted as the tendering agent of Shenyang Railway Bureau (瀋陽鐵路局) in respect of their first and second phases of construction works relating to Three Supplies and Property Management Policy. After the tendering processes, two successful main-contractors, which are Independent Third Parties of our Company, were selected. These successful main-contractors sub-tendered certain parts of the construction and maintenance works through tendering processes, to certain sub-contractors which include, among others, subsidiaries of our Company. Our Controlling Shareholder has confirmed to us that (i) the tendering process selecting the two main-contractors were carried out in accordance with the Bidding Law of the PRC (《中華人民共和國招標投標法》); and (ii) it did not have any agreement, arrangement, understanding or undertaking with the two main-contractors in respect of the sub-tendering process, nor did our Controlling Shareholder had any significant influence over the two main-contractors. As the two main-contractors, who entered into the construction and maintenance contracts with our Group were all Independent Third Parties, our Directors believe that it does not have any implication on the operational independence of our Company. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the revenue of construction and maintenance works provided by our Group to these two main-contractors was nil, approximately RMB89.4 million, RMB270.6 million and RMB17.3 million, respectively. These transactions were recognized as transactions with other government related entities in the PRC in the “Appendix 1 – Accountants’ Report” to this prospectus. For details, please refer to paragraph 36(e)(v) of the section headed “Appendix 1 – Accountants’ Report – II. Notes to the Historical Financial Information” of this prospectus.

Save as disclosed above, we own or have the right to use all the operational facilities and technologies relating to our business and hold all relevant qualifications, licenses and permits. We currently conduct our principal business independently and we have the ability to formulate and implement operational decisions independently. We also communicate with and serve our clients independently. We have sufficient capital, facilities and employees to operate our business independently. Our employees are independent from, and none of them are remunerated by, our Controlling Shareholder and its respective associates.

We have our own organizational structure and departments with specific authorities independent from our Controlling Shareholder. We also maintain a comprehensive set of internal control procedures for promoting efficient business operation. With reference to

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relevant laws, regulations and rules, we develop sound corporate governance practice and have adopted our rules of procedure for general meeting, rules of procedure for board meeting, rules of procedure for supervisory committee meeting and connected transactions rules.

We provide construction, maintenance and design services to our Controlling Shareholder for the heating business retained by it. During the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the aggregated receipts from such services amounted to approximately RMB0.3 million, RMB2.2 million, RMB46.3 million and RMB7.2 million, which accounted for 0.1%, 0.2%, 3.2% and 1.3% of our total revenue during the same periods, respectively. On the other hand, New Model Pipes, an associate of our Controlling Shareholder, is a supplier of heat supply pipes to us. During the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the aggregated purchase amount was nil, approximately RMB9.0 million, RMB16.5 million and RMB0.3 million, which accounted for nil, approximately 1.0%, 1.4% and 0.1% of our total cost of sales during the same periods, respectively. Save as disclosed in this section and “Connected Transactions”, there were no significant business transactions between our Group and our Controlling Shareholder or its respective associates during the Track Record Period.

In view of the aforesaid reasons, our Directors believe that we can operate independently from our Controlling Shareholder.

Financial independence

Our financial department is independent from our Controlling Shareholder, and composed of independent financial staff. Its responsibilities include, among others, financial control, accounting, financial reporting, group credit, internal control. None of our financial staff works for our Controlling Shareholder and/or its respective associates. We are capable of making financial decisions independently, and our Controlling Shareholder will not interfere with our use of funds. We have established an independent audit system, a standardized financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with our Controlling Shareholder and/or its respective associates. We conduct our tax registration and pay taxes independently according to the PRC tax laws and regulations, rather than on a combined basis with our Controlling Shareholder or any of its respective associates.

As at 31 July 2019, we had no material outstanding loans, current account balances, financial assistance or financing in any other forms from our Controlling Shareholder or its respective associates; and had not provided any outstanding securities, loans or any other forms of financial assistance to our Controlling Shareholder or its respective associates. Therefore, our Directors believe that our financial operation is independent from our Controlling Shareholder.

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Management independence and conflicts of interest management

The Board is comprised of eight Directors upon Listing. Apart from (i) Mr. LIU Changchun, our non-executive Chairman who holds the position as an executive director and the Chairman in our Controlling Shareholder; (ii) Mr. YANG Zhongshi, our executive Director who holds the position as a non-executive director in our Controlling Shareholder; and (iii) Mr. SHI Mingjun, our executive Director who holds the position as a non-executive director in Datang JV, the other two executive Directors and three independent non-executive Directors do not hold any directorship or senior management positions in our Controlling Shareholder or its close associates. Mr. LIU Changchun who is a non-executive Director of our Company will not be involved in the day-to-day management of our Company. Mr. YANG Zhongshi, our executive Director, will not be involved in the day-to-day management of our Controlling Shareholder. Mr. SHI Mingjun, our executive director, will not be involved in the day-to-day management of Datang JV. Saved as disclosed in this prospectus, our Directors have no interest in any business which competes or is likely to compete, with our business, that requires disclosure under Rule 8.10(2) of the Listing Rules.

We believe that our Directors, Supervisors and senior management can independently perform their duties in our Company, we can operate independently from our Controlling Shareholder and conflicts of interest between our Group and our Controlling Shareholder are sufficiently managed due to the following reasons:

- (a) as mentioned above, Mr. LIU Changchun, who is an executive director and the chairman of our Controlling Shareholder, is a non-executive Director of our Company and will not be involved in the day-to-day management of our Group. Mr. YANG Zhongshi and Mr. SHI Mingjun, who are the executive Directors of our Company and will be involved in our day-to-day management of our Group, are non-executive Directors of our Controlling Shareholder and Datang JV, respectively and will not be involved in the day-to-day management of our Controlling Shareholder and Datang JV;
- (b) the decision-making mechanism of the Board as specified in our Articles of Association has set out relevant provisions to avoid conflicts of interest, including but not limited to: (i) disclosure of conflicting interest to the Board; (ii) if the relevant proposal causes conflicts of interest between our Group and our Controlling Shareholder, the Director(s) associated with our Controlling Shareholder should abstain from voting and should not attend or be included in the quorum of the meeting of the Board; (iii) when connected transaction(s) are considered, independent non-executive Directors of our Company shall give their independent opinions to the Board on the relevant connected transaction(s) pursuant to the Listing Rules;

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- (c) upon Listing we will have appointed three independent non-executive Directors (accounting for one-third of the Board) to balance the numbers of interested Director(s) and independent non-executive Directors for the protection of the interests of our Group and the Shareholders as a whole;
- (d) except for the transactions contemplated under the Construction Framework Agreement and the Pipes Supply Agreement (for details, please refer to the section headed “Continuing Connected Transactions” in this prospectus), there is no other material transaction between our Group and the Excluded Businesses as of the date of this prospectus. Our Directors expect that the frequency of those interested Directors having to abstain from voting at board meetings of our Company is not that materially high;
- (e) save as disclosed above, none of our Directors and members of the senior management holds any directorship and senior management positions in our Controlling Shareholder or its respective associates.

As our management team is different from our Controlling Shareholder, there are sufficient non-overlapping Directors who are independent from our Controlling Shareholder and possess relevant experience to ensure that the Board is able to perform its functions properly. Therefore, even if Mr. LIU Changchun, Mr. YANG Zhongshi and/or Mr. SHI Mingjun are required to abstain from voting and are not included in the quorum of the meeting of the Board, our Directors believe that our Board can still function efficiently and competently.

Among the remaining Directors, Mr. LI Yeji has approximately 17 years of working experience in the PRC heating industry. One of our independent non-executive Directors, Mr. WANG Yuguo, has also served as the chief secretary general at Jilin Province City Heating Association* (吉林省城鎮供熱協會) from which he obtained relevant knowledge of the PRC heat supply industry. The another independent non-executive Director, Mr. POON Pok Man, Coca is a professional in accountancy with relevant experiences in handling compliance matters; and

- (f) our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of our Group and our Shareholders as a whole.

To conclude, our Directors believe that our management team is independent from our Controlling Shareholder.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of eight Directors, including four executive Directors, one non-executive Directors and three independent non-executive Directors. Our Board is mainly responsible and has general powers for the management and conduct of our business. The functions and duties of the Board include convening shareholders' meetings, reporting the Board's work at the shareholders' meetings, implementing the resolutions passed at the shareholders' meetings, preparing our business strategies and investment plans, preparing annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital, as well as exercising other powers, functions and duties as conferred by our Articles of Association.

The following table sets out certain information regarding the members of our Board upon Listing:

Name	Age	Date of joining our Group	Current position	Date of appointment of current term of office	Roles and responsibilities	Relationship with other Directors/ Supervisors/ senior management
Mr. LIU Changchun (劉長春)	55	March 2016	Chairman and non-executive Director	30 May 2018	Formulation of our corporate strategies and directing the activities of our Board	Nil
Mr. YANG Zhongshi (楊忠實)	53	April 1998	Vice chairman and executive Director	30 May 2018	Overall management of business and operation of our Group with specific focus on general office, human resources department, internal audit department and resources management department	Nil

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Current position	Date of appointment of current term of office	Roles and responsibilities	Relationship with other Directors/ Supervisors/ senior management
Mr. SHI Mingjun (史明俊)	51	April 1998	Executive Director	7 August 2018	Overall management of construction projects as well as mergers and acquisitions and business development of our Group	Nil
Mr. XU Chungang (徐純剛)	46	May 2018	Executive Director	30 May 2018	Overall management of business plans, finance and legal matters of our Group	Nil
Mr. LI Yeji (李業績)	41	September 2001	Executive Director	30 May 2018	Overall management of construction projects	Nil
Mr. WANG Yuguo (王玉國)	50	May 2018	Independent non-executive Director	19 August 2019	Supervision of and providing independent opinions and advice to our Board	Nil
Mr. FU Yachen (付亞辰)	66	August 2019	Independent non-executive Director	19 August 2019	Supervision of and providing independent opinions and advice to our Board	Nil
Mr. POON Pok Man, Coca (潘博文)	35	August 2019	Independent non-executive Director	19 August 2019	Supervision and providing independent opinions and advice to our Board	Nil

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

CHAIRMAN

Mr. LIU Changchun (劉長春先生), aged 55, joined our Group in March 2016 and is currently the Chairman of our Board and a non-executive Director of our Company. Mr. LIU is mainly responsible for the formulation of our corporate strategies and directing the activities of our Board.

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

He served as government officials prior to joining our Group. From June 2000 to April 2010, he was the deputy mayor of Dehui City (德惠市), Changchun City, the PRC, and from June 2010 to September 2013, he was the Mayor of Dehui City (德惠市), Changchun City, the PRC. In June 2013 when he served as the Mayor of Dehui City (德惠市), Changchun City, the PRC, a major fire accident occurred at a poultry processing plant within the city which led to 121 deaths and 76 injuries. According to the investigation report issued by the State Council, there were direct and indirect causes for the incident. For the direct causes, the fire broke out due to a short circuit, and the fire spread in the factory due to the usage of sub-standard materials as building materials. For the indirect causes, the incident arose because there were faults under (i) the safety management system within poultry processing plant; (ii) the fire safety supervision by the local fire safety bureau; (iii) the building inspection and completion procedures by the local construction bureau; and (iv) the production safety supervision by the local safety bureau and the local government. Mr. LIU was held liable for the incident as one of the major leaders, and was removed from his position as the Mayor by the Communist Party as disciplinary penalty. Notwithstanding the incident, our Directors are of the view that the incident does not affect Mr. LIU's integrity and his suitability to act as the chairman and the non-executive Director of our Company mainly because (i) the incident does not involve personal fraud, dishonesty, corruption or other illegal behavior of Mr. LIU; (ii) the incident was an accident which was caused by a combination of factors and faults by various parties; (iii) there were other 19 government officials/corporate executives were held with a higher degree of responsibilities for the incident and were charged with criminal offenses by the courts; (iv) Mr. LIU was not charged with any criminal offenses, instead he was only disciplined by the Communist Party along with 22 other government officials; and (v) Mr. LIU was not subject to any other investigations by the Communist Party during his tenure as the Deputy Mayor or the Mayor of Dehui City (德惠市). As advised by our PRC Legal Advisers, notwithstanding the incident, Mr. LIU acting as the Chairman of our Board and a non-executive Director of our Company does not violate article 146 of the PRC Company Law regarding disqualifications of

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

directors. Subsequently, Mr. LIU was appointed by SASAC Changchun as a director, the chairman of the board of directors (from June 2014 to August 2014) and the general manager of Changchun Public Transport Group Co., Ltd.* (長春公共交通(集團)有限責任公司), a local state-owned public transport enterprise based in Changchun City, the PRC. He was mainly responsible for operations management from April 2014 to March 2016.

Outside our Group, Mr. LIU has served in Changchun Group as a director since March 2016 and as the chairman of the board since September 2016. Please also refer to the section headed “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholder – Management Independence and Conflicts of Interests Management” in this prospectus.

Mr. LIU obtained a bachelor’s degree in materials engineering from Jilin Institute of Engineering* (吉林工學院) (now known as Changchun University of Technology (長春工業大學)) in Jilin Province, the PRC, in July 1983 and a master’s degree in business administration from Northeast Normal University (東北師範大學) in Jilin Province, the PRC, in June 2010.

Mr. LIU has obtained the qualification as a senior engineer (正高級工程師) in heat treatment of metal materials (金屬材料熱處理) awarded by the Human Resources and Social Security Bureau of Jilin Province (吉林省人力資源和社會保障廳). Mr. LIU also passed exams in respect of legal, ethical and operational framework of funds (基金法律法規、職業道德與業務規範), fundamental knowledge in investment funds of private equity shares (私募股權投資基金基礎知識) and fundamental knowledge in investment funds of securities (證券投資基金基礎知識) organized by the Asset Management Association of China (中國證券投資基金業協會). Mr. LIU was also awarded the seventh batch of experts with outstanding contributions (第七批有突出貢獻專家榮譽稱號) jointly by the Changchun Municipal Chinese Communist Party’s Committee (中共長春市委) and the People’s Government of the Changchun Municipal (長春市人民政府).

EXECUTIVE DIRECTORS

Mr. YANG Zhongshi (楊忠實先生), aged 53, joined our Group in April 1998 and is currently the vice chairman of the Board, an executive Director and the general manager of our Company, mainly responsible for overall management of business and operations of our Group including heat supply and heat supply related services, with specific focus on the general office, human resources department, internal audit department and resources management department.

Mr. YANG has approximately 29 years of working experience in the heating industry and held various senior management positions within Changchun Heating Group. He was the deputy chief engineer of Changchun Heating Group from December 2000 to December 2002 and was promoted to chief engineer since December 2002, mainly responsible for overall technology management. He served as the deputy general manager at Changchun Heating Group from February 2011 to April 2016, mainly responsible for production management, production safety management and end-users service management, and the general manager

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

from April 2016 to May 2018, mainly responsible for overall business management and implementation of policies passed by the board of directors. Mr. YANG was appointed as a director of Changchun Heating Group in August 2017, mainly responsible for overall management of business and operation. Since May 2018, he has not participated in the daily operation of Changchun Heating Group and has been mainly responsible for formulation of corporate strategies. He was a director at Heating Engineering Design from September 2012 to July 2018, mainly responsible for overall management of business and operations.

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

Mr. SHI Mingjun (史明俊先生), aged 51, joined our Group in April 1998 and is currently an executive Director and the deputy general manager of our Company, mainly responsible for overall management of heat supply network construction projects as well as mergers and acquisitions and business development of our Group.

Mr. SHI has approximately 23 years of working experience in the heating industry. He held various positions within Changchun Heating Group and worked successively as manager assistant, deputy manager and manager of the construction development division from September 2000 to August 2009, mainly responsible for construction of thermal power plants network, overall management of business operations and formulation of business strategies. He then worked at Changchun Heating Group as the general manager assistant from August 2009 to August 2010 and was promoted to the position of deputy general manager from August 2010 to July 2018 mainly responsible for formulation of strategies and development plans of our Group and overall management of business operations. Mr. SHI was appointed as a director of Changchun Heating Group from November 2014 to January 2018, mainly responsible for overall management of construction projects. He has worked as the deputy general manager of our Company since July 2018.

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

Mr. XU Chungang (徐純剛先生), aged 46, joined our Group in May 2018 and is currently an executive Director, the deputy general manager and financial controller of our Company, mainly responsible for overall management of business plans, finance and legal matters of our Group.

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

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

Mr. LI Yeji (李業績先生), aged 41, joined our Group in September 2001 and is currently an executive Director, and our manager of the construction management center, mainly responsible for overall management of construction projects of our Group.

Mr. LI has approximately 17 years of working experience in the PRC heating industry. He has held various positions within Changchun Heating Group and worked successively as the construction manager of the construction development division from September 2001 to May 2002, mainly responsible for coordination of construction projects; the process engineer of the technical department from May 2002 to April 2008, mainly responsible for process management of technical department; the deputy manager of Chaoyang Division One from April 2008 to March 2009 mainly responsible for production management and quality control; the deputy head of production department from March 2009 to March 2010 mainly responsible for operations and end-users services management; the deputy manager of Chaoyang Division Two from March 2010 to April 2012 mainly responsible for production management, quality control and management of technical equipment; the head of the integrated business planning department from April 2012 to May 2015 mainly responsible for overall management and operations planning; the head of the fuel management division and secretary from May 2015 to May 2017 mainly responsible for overall fuel management; deputy head of the construction management center from May 2017 to July 2017 mainly responsible for construction project management; and manager of the construction management center from December 2017 to May

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2018 mainly responsible for construction project management. Mr. LI was seconded to Tianjin Jin'an Thermal Power Limited Liability Company* (天津津安熱電有限責任公司) as deputy general manager from July 2017 to December 2017, mainly responsible for management of technology and production.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Yuguo (王玉國先生), aged 50, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. WANG has served as the chief of tourist office and head of investment promotion office at the Foreign Economic Agency of Dehui City, Jilin Province* (吉林省德惠市對外經濟發展局) from March 2003 to February 2006, mainly responsible for management of tourism resources and the introduction of foreign investment, during which he also served as the director of foreign investment division at the Economic Department of Dehui City, Jilin Province* (吉林省德惠市經濟局) from February 2006 to December 2010, mainly responsible for the introduction of foreign investment, during which he also served as the deputy head of Buhai County (布海鎮), Dehui City (德惠市) from May 2007 to June 2009, mainly responsible for management of human resources and modern agricultural projects. From December 2010 to December 2012, Mr. Wang was the general manager of Jilin Province Dehui City Investment Development Co., Ltd.* (吉林省德惠市城市投資發展有限公司), a city project investment company and property developer, mainly responsible for management of the investment projects in Dehui City and the development and construction of real estate and infrastructure. From December 2012 to December 2015, Mr. WANG was the deputy manager of Dehui City Commercial State-Owned Assets Operation Company* (德惠市商業國有資產經營公司), mainly responsible for introducing foreign investments to Dehui City. From December 2015 to June 2017, Mr. WANG served as the deputy chief at the Economic Department of Dehui City of Jilin Province* (吉林省德惠市經濟局), mainly responsible for development and management of tourism resources and introduction of foreign investment projects. From June 2017 to April 2018, Mr. WANG was the deputy secretary general of Jilin Province City Heating Association* (吉林省城鎮供熱協會), mainly responsible for assisting the chief secretary general to manage the association. He has served as the chief secretary general at Jilin Province City Heating Association* (吉林省城鎮供熱協會) since April 2018, mainly responsible for research and consolidation of heat supply regulations at the state-level and provincial-level and the promotion of heat supply industries.

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

Mr. FU Yachen (付亞辰), aged 66, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. FU has over 36 years of experience teaching in university. He worked successively as a lecturer and the deputy head of the faculty of finance at Jilin Finance and Trading College* (吉林財貿學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) and Changchun Tax Institute* (長春稅務學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) from July 1982 to December 1986, from January 1987 to December 1992 and from January 1993 to December 1998, respectively, mainly responsible for giving lectures. He was promoted as the department head of faculty of finance at Changchun Tax Institute* (長春稅務學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) from January 1999 to December 2009, mainly responsible for administrative work. From January 2010 to December 2010, Mr. FU was the dean of the finance faculty of Jilin University of Finance and Economics (吉林財經大學) mainly responsible for management and administration. Mr. FU has been working as an advisor at Jilin Provincial Government since January 2012, mainly responsible for offering advice and supervising the government. He has been working as an independent director at Bank of Jilin (吉林銀行) since October 2014, mainly responsible for overseeing the management independently.

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

Mr. POON Pok Man, Coca (潘博文), aged 35, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. POON has over 12 years of professional experience in corporate finance, financial reporting and auditing. He successively worked as the senior project manager and the assistant general manager, and is currently the chief financial officer at Asia Energy Logistics Group Limited (亞洲能源物流集團有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 351.HK) since June 2017, mainly responsible for managing financial operations, overseeing investment projects and fund raising activities, and offering advice to the management pertaining to corporate reorganization. He worked as an accountant at ShineWing (HK) CPA Limited (信永中和(香港)會計師事務所有限公司) from September 2007 to January 2009, mainly responsible for preparing consolidated financial statements, conducting audit and internal control for companies listed on the Hong Kong Stock Exchange. Mr. POON worked as senior auditor at RSM Nelson Wheeler Certified Public Accountants (中瑞岳華(香港)會計師事務所) from February 2009 to February 2012, mainly responsible for preparing financial

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reports, annual reports and interim reports for companies listed on the Hong Kong Stock Exchange and managing the audit team. He also served as the finance director of a member company of Titan Petrochemicals Group Limited (泰山石化集團有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1192.HK) from April 2012 to May 2016, mainly responsible for preparing consolidated financial reports, ensuring compliance with the Listing Rules and Companies Ordinance and supervising the PRC finance team. Mr. POON worked as the senior project manager at Value Convergence Holdings Limited (匯盈控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 821.HK) from April 2016 to May 2017, mainly responsible for managing corporate finance projects.

Mr. POON graduated from the City University of Hong Kong (香港城市大學), with a bachelor's degree in Business Administration (Hons) with a major in accounting in November 2007. He has been a member of the Hong Kong Institute of Certified Public Accountants since May 2012.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters that need to be brought to the attention of the Shareholders in connection with the appointment of our Directors, and there is no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A of the Listing Rules, including matters relating to directorships held by our Directors in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

Save as disclosed in the section headed "Relationship with Our Controlling Shareholder" in this prospectus, none of our Directors has any interests in any business, apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business.

SUPERVISORY COMMITTEE

The PRC Company Law requires a joint stock limited liability company to establish a Supervisory Committee, and this requirement is also set out in our Articles of Association. Our Supervisory Committee consists of three members, including an employee representative Supervisor. The functions and duties of the Supervisory Committee include, but are not limited to, reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board, and, if in doubt, appointing certified public accountants and practicing auditors to reexamine our Company's financial information; monitoring the financial activities of our Company; supervising the performance of Directors and senior management when carrying out their duties; requesting that our Directors, the general manager and members of the senior management rectify actions which may be considered adverse to our Company's best interests; and exercising other rights conferred by our Articles of Association, laws and administrative regulations.

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A resolution of our Supervisory Committee may be adopted only if it is approved by the vote of two-thirds or more of the members of our Supervisory Committee.

The following table sets out certain information regarding the members of our Supervisory Committee:

Name	Age	Date of joining our Group	Current position	Date of appointment of current term of office	Roles and responsibilities	Relationship with other Directors/ Supervisors/ senior management
Mr. WANG Fenghua (王風華)	52	April 1998	Chairman of the Supervisory Committee	30 May 2018	Directing the activities of the Supervisory Committee, monitoring and supervising our operational and financial activities	Nil
Ms. WANG Xuejing (王雪晶)	42	30 May 2018	Supervisor	30 May 2018	Monitoring and supervising our operational and financial activities	Nil
Ms. LI Xiaoling (李曉玲)	36	July 2006	Employee representative Supervisor	30 May 2018	Monitoring and supervising our operational and financial activities	Nil

Mr. WANG Fenghua (王風華先生), aged 52, is the Chairman of the Supervisory Committee of our Company. He was appointed as our Supervisor on 30 May 2018. Mr. WANG worked as the head of Changchun Heating Group construction development division from February 2001 to April 2004, mainly responsible for materials procurement. From April 2004 to April 2008, Mr. WANG successively worked as the deputy manager and chairman of the labor union at the construction development division of Changchun Heating Group, mainly responsible for procurement and management of the labor union. From April 2008 to November 2009, Mr. WANG was the head of procurement department of Changchun Heating Group, mainly responsible for materials procurement management. From November 2009 to September 2010, he worked as the general manager assistant at Changchun State-owned

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Capital Investment and Operation Co., Ltd.* (長春市國有資本投資經營有限公司), mainly responsible for assisting the general manager to manage and operate state-owned properties. From September 2010 to February 2014, Mr. WANG worked as the chairman of the labor union at Changchun City Heat Supplies Operation Co., Ltd.* (長春市供熱經營有限責任公司), mainly responsible for labor union matters. Mr. WANG was promoted to the position of deputy general manager of Changchun City Heat Supplies Operation Co., Ltd.* (長春市供熱經營有限責任公司) from February 2014 to May 2015, mainly responsible for management of company resources and coal. Mr. WANG re-joined Changchun Heating Group in May 2015 and worked as the chairman of the labour union since then.

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

Ms. WANG Xuejing (王雪晶女士), aged 42, is a Supervisor of our Company. She was appointed as our Supervisor on 30 May 2018. From August 2005 to September 2009, Ms. WANG worked as an accountant and finance manager at Ginde Plastic Pipe Industry Group (金德管業集團) and promoted to the position of financial controller in the Beijing branch from October 2009 to December 2013, mainly responsible for preparing the financial accounts and participating in the making of important corporate and operational decisions. Ms. WANG worked as a finance manager in the finance department at Changchun Guoxing Credit Guarantee & Investment Co., Ltd. (長春國興信用擔保投資有限公司) from January 2014 to June 2014. Ms. WANG joined Changchun State-owned Capital Investment and Operation Co., Ltd.* (長春市國有資本投資經營有限公司) as the deputy manager of the finance department from June 2014 to March 2016 and since March 2016, she has been the manager of finance management department mainly responsible for providing financial data and analysis for formulating operational, investment and financing decisions.

Ms. WANG graduated from Changchun City Economics and Trading College (長春市經濟貿易學校) in Jilin Province, the PRC, majoring in economics and trading in June 1998. Ms. WANG is a member of the Jilin Province Institute of Certified Public Accountants (吉林省註冊會計師協會).

Ms. LI Xiaoling (李曉玲女士), aged 36, is a Supervisor representing ordinary employees of our Company. She was appointed as our Supervisor on 30 May 2018. Ms. LI worked successively as technician in the technical department from July 2006 to April 2008, mainly responsible for maintaining and operating the office automation system, archivist at the general manager office from April 2008 to May 2009, mainly responsible for managing the archives, back office administrator of the human resources department from May 2009 to October 2016, mainly responsible for training and management of technicians, assistant of the head of human resources department from October 2016 to July 2017, mainly responsible for human resources provision and staff training, and deputy head of human resources department from July 2017

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to May 2018, mainly responsible for human resources management at Changchun Heating Group. Since May 2018, Ms. LI has worked as the deputy head of human resources department at our Company mainly responsible for the human resources management.

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

Save as disclosed in the section headed "Relationship with Our Controlling Shareholder" in this prospectus, none of our Supervisors has any interests in any business, apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business.

SENIOR MANAGEMENT

The following table sets out certain information regarding the members of our senior management:

Name	Age	Date of joining our Group	Current position	Date of appointment of current term of office	Roles and responsibilities	Relationship with other Directors/ Supervisors/ senior management
Mr. YANG Zhongshi (楊忠實)	53	April 1998	General manager	30 May 2018	Overall management of business and operation of our Group and, in particular, management of general office, human resources department, internal audit department and resources management department	Nil

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Name	Age	Date of joining our Group	Current position	Date of appointment of current term of office	Roles and responsibilities	Relationship with other Directors/ Supervisors/ senior management
Mr. SHI Mingjun (史明俊)	51	April 1998	Deputy general manager	23 July 2018	Overall management of construction projects as well as mergers and acquisitions and business development of our Group	Nil
Mr. XU Chungang (徐純剛)	46	May 2018	Deputy general manager and financial controller	23 July 2018 and 26 March 2019	Overall management of business plans, finance and legal matters of our Group	Nil
Mr. ZHANG Liming (張黎明)	45	January 1999	Deputy general manager	30 May 2018	Production management, operations management of heating facilities	Nil
Mr. WAN Tao (萬滔)	33	May 2011	Board secretary, general office manager and joint company secretary	30 May 2018	Participating in daily operations and management and significant decision making of our Company; and taking charge of the daily activities of the office of the Board	Nil

Mr. YANG Zhongshi (楊忠實先生), aged 53, is the general manager of our Company. For details of biography of Mr. YANG Zhongshi, please see the section headed “Directors, Supervisors and Senior Management – Executive Directors”.

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Mr. SHI Mingjun (史明俊先生), aged 51, is the deputy general manager of our Company. For details of biography of Mr. SHI Mingjun, please see the section headed “Directors, Supervisors and Senior Management – Executive Directors”.

Mr. XU Chungang (徐純剛先生), aged 46, is the deputy general manager and financial controller of our Company. For details of biography of Mr. XU Chungang, please see the section headed “Directors, Supervisors and Senior Management – Executive Directors”.

Mr. ZHANG Liming (張黎明先生), aged 45, joined our Group in January 1999 and is currently the deputy general manager of our Company mainly responsible for production management, operations management of heating facilities and investment management. Mr. ZHANG held various position within Changchun Heating Group. He worked successively as head of production from January 1999 to April 2001 at Nanyi Division, mainly responsible for management of heating supply operation and quality control; manager assistant and deputy manager at Dongling Division from April 2001 to April 2006, mainly responsible for management of heating supply operation and quality control, as well as, overall management. He then worked as the manager of Erdao Division, mainly responsible for overall management of heat production and service fees from April 2006 to April 2009; the manager at Chaoyang Division Two from April 2009 to April 2010, mainly responsible for management of heat production and operation; the manager at Dongling Division, mainly responsible for overall management of heat supply operations from April 2010 to April 2014; head of construction development department from April 2014 to May 2017, mainly responsible for overall management of heat supply, technologies and safety matters; general manager assistant from December 2014 to May 2018, mainly responsible for project management; and an officer of construction management center from May 2017 to December 2017. He was the deputy chief engineer of Changchun Heating Group from December 2017 to May 2018, mainly responsible for overall management of heat supplies, technologies, safety matters and construction design.

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

Mr. WAN Tao (萬滔先生), aged 33, joined our Group in May 2011 and is currently the Board secretary and general office manager of our Company. He was appointed as our Board secretary in May 2018 and our joint company secretary on 20 May 2019. Mr. WAN was the secretary and archivist and project statistician of Erdao Division of Changchun Heating Group from May 2011 to October 2012 and from October 2012 to May 2013, respectively, mainly responsible for news publication and preparing plans for heat production. He then worked as communications officer for the party branch at Changchun Heating Group from May 2013 to May 2015, mainly responsible for publications and media communications; deputy head of fuel management of Changchun Heating Group from May 2015 to May 2017, mainly responsible for securing coal supply for heat production; deputy director of office from May 2017 to May 2018, mainly responsible for management of the office. Mr. WAN has been the Board secretary

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

and director of office of our Company since May 2018 responsible for organizing board meetings, shareholders' meetings, supervisors' committee preparation of documents and handling affairs in relation to our Group.

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

Except as disclosed herein, none of the senior management of our Company held any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, in the last three years immediately preceding the date of this prospectus.

BOARD SECRETARY/JOINT COMPANY SECRETARIES

Mr. WAN Tao (萬滔先生), aged 33, is the Board secretary and joint company secretary of our Company. Please refer to the sub-section headed “– Senior Management” for the biographical details of Mr. WAN.

Ms. TONG Suet Fong (湯雪芳小姐), is the joint company secretary of our Company. Ms. TONG is a vice president of Company Secretarial Services Department of Computershare Hong Kong Investor Services Limited. She has over 12 years of experience in company secretarial services.

Ms. TONG is an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators. Ms. TONG graduated from The University of Hong Kong with a bachelor's degree in management studies. She also obtained a master of corporate governance degree from The Hong Kong Polytechnic University.

Pursuant to Rule 3.28 of the Listing Rules, an issuer must appoint as its company secretary an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules, with regards to the qualifications of company secretary. For further details of this waiver application, please refer to the section headed “Waivers from Strict Compliance with the Listing Rules – Joint Company Secretaries” in this prospectus.

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WAIVER FROM RULES 8.12 AND 19A.15 OF THE LISTING RULES

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules regarding the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed “Waivers from Strict Compliance with the Listing Rules – Management Presence in Hong Kong” of this prospectus.

BOARD COMMITTEES

The Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles of Association and the Listing Rules, we have established our audit committee, remuneration committee, nomination committee and strategy committee.

Audit Committee

The audit committee consists of three Directors namely Mr. POON Pok Man, Coca, Mr. LIU Changchun and Mr. WANG Yuguo. Mr. POON Pok Man, Coca currently serves as the chairman of the audit committee. The terms of reference of the audit committee are in compliance with Rule 3.21 of the Listing Rules, the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of the audit committee include but are not limited to supervising our internal control, risk management, financial information disclosure and financial reporting matters.

Remuneration Committee

The remuneration committee of our Company consists of three Directors namely, Mr. FU Yachen, Mr. XU Chungang and Mr. POON Pok Man, Coca. Mr. FU Yachen currently serves as the chairman of our Company’s remuneration committee. The terms of reference of the remuneration committee are in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of the remuneration committee include but not limited to making recommendations to the Board on our Company’s policy and structure for all remuneration of our Directors and senior management and making recommendations on employee benefits arrangement.

Nomination Committee

The nomination committee of our Company consists of three Directors namely, Mr. WANG Yuguo, Mr. YANG Zhongshi and Mr. FU Yachen. Mr. WANG Yuguo currently serves as the chairman of the nomination committee. The terms of reference of the nomination committee are in compliance with the Corporate Governance Code set out in Appendix 14 to

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the Listing Rules. The primary responsibilities of the nomination committee include but not limited to making recommendations to our Board on the appointment and removal of our Directors and senior management, as well as to reviewing our board diversity policy (the “**Board Diversity Policy**”).

STRATEGY COMMITTEE

The strategy committee consists of three Directors namely, Mr. LIU Changchun, Mr. WANG Yuguo and Mr. SHI Mingjun. Mr. LIU Changchun currently serves as the chairman of our Company’s strategy committee. The primary duties of the strategy committee are to assist the board of directors in formulating and evaluating our medium and long-term development strategy and implementation plan, and to advise the board of directors on major corporate affairs and major investment and financing plans.

REMUNERATION OF OUR DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the total remuneration paid to our Directors and Supervisors (including the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind) were RMB1,716,000, RMB2,165,000, RMB2,275,000 and RMB686,000, respectively.

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind received by the five highest-paid individuals were RMB1,672,000, RMB2,072,000, RMB2,114,000 and RMB543,000, respectively.

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining our Company, or as a service pay for compensation. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, no remuneration was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of our Company. In addition, none of our Directors or Supervisors waived any remuneration for said period.

In accordance with the effective arrangements as of the Latest Practicable Date, we estimate that we shall pay and grant a remuneration in the aggregate amount of approximately RMB2,800,000 to our Directors and Supervisors for the year ending 31 December 2019.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019.

COMPLIANCE ADVISER

We have appointed Messis Capital Limited as our compliance adviser, pursuant to Rule 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Hong Kong Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, Messis Capital Limited will, in a timely manner, inform us of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. Messis Capital Limited will also inform us of any amendment or supplement to applicable laws and guidelines.

The term of appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing.

CORPORATE GOVERNANCE

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon Listing.

For details of corporate governance measures to manage any potential conflict of interest with our Controlling Shareholders, please see the paragraph headed “Relationship with our Controlling Shareholders – Non-competition Agreement – Corporate Governance Measures”.

Board Diversity

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

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

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

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

THE COMMUNIST PARTY COMMITTEE

In accordance to the Constitution of the Communist Party of China (中國共產黨章程), we have established the Committee of the Communist Party of our Company (the “**Communist Party Committee**”). Its main duties and responsibilities include:

- (i) to supervise the guiding principles and policies of the Communist Party of China and the State are fully implemented in our Company;
- (ii) to participate in the decision-making of key issues and to provide recommendations about major matters concerning the reform, development and stability of our Company;
- (iii) to support the Shareholders’ general meeting, the Board of Directors, the board of Supervisors and the management in their performance of duties and responsibilities;
- (iv) to implement the party’s principles on cadres and talents, to establish the mechanism for selecting personnel to meet the requirements of modern enterprise systems and market competition conditions and to build high quality management team to support the reform and development of our Company;
- (v) to promote anti-corruption work, to enhance the supervision and management of the leaders of our Company and major issues, and to construct a supervision mechanism to enhance the effectiveness of supervision;
- (vi) to improve the democratic management of enterprises with the employees’ congress as the basic form and the system of having employees in the board of directors and the board of supervisors, and to encourage employees’ representatives to participate in the management of our Company;
- (vii) to strengthen the construction of the Communist Party Committee, to lead the ideology work, and to help cultivate our Company’s corporate culture; and
- (viii) to determine other matters that shall be considered and decided by the Communist Party Committee.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, our registered share capital was RMB350,000,000 comprising 350,000,000 Domestic Shares and the following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5% or more of the voting rights of our Domestic Shares:

Shareholder	Number of Shares held	Shareholding percentage
Changchun Heating Group	325,500,000	93%
Changchun SCIO Group	24,500,000	7%

So far as our Directors are aware, immediately following completion of the Global Offering (without taking into account the exercise of the Over-allotment Option), each of the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings:

Shareholder	Class of Shares to be held after the Global Offering	Nature of interest	Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised)			Immediately after completion of the Global Offering (assuming the Over-allotment Option is fully exercised)		
			Number of Shares held as of the Latest Practicable Date	Percentage of shareholding in the relevant class of Shares of our Company ⁽¹⁾	Approximate percentage of total interest of our Company ⁽²⁾	Number of Shares held as of the Latest Practicable Date	Percentage of shareholding in the relevant class of Shares of our Company ⁽¹⁾	Approximate percentage of total interest of our Company ⁽³⁾
Changchun Heating Group	Domestic Shares	Beneficial owner	325,500,000	93%	69.75%	325,500,000	93%	67.22%
Changchun SCIO Group	Domestic Shares	Beneficial owner	24,500,000	7%	5.25%	24,500,000	7%	5.06%

Notes:

- (1) The calculation is based on the total number of 350,000,000 Shares in issue (excluding 116,700,000 H Shares (assuming the Over-allotment Option is not exercised) or 134,200,000 H Shares (assuming the Over-allotment Option is fully exercised)) as of the Latest Practicable Date.
- (2) The calculation is based on the total number of 466,700,000 Shares in issue immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (3) The calculation is based on the total number of 484,200,000 Shares in issue immediately after the Global Offering (assuming the Over-allotment Option is fully exercised).

SUBSTANTIAL SHAREHOLDERS

Save as disclosed herein, our Directors are not aware of any other person(s) who will, immediately following the Global Offering (without taking into account the exercise of the Over-allotment Option), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

This section presents certain information regarding our share capital prior to and immediately following the completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, our total registered share capital was RMB350,000,000, divided into 350,000,000 Domestic Shares and the particulars of our shareholding structure were as follows:

Shareholders	Class	Number of Shares	Approximate percentage of total share capital
Changchun Heating Group	Domestic Shares	325,500,000	93%
Changchun SCIO Group	Domestic Shares	24,500,000	7%
Total share capital		350,000,000	100%

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately after completion of the Global Offering, assuming an Offer Price of HK\$2.20 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment Option is not exercised at all, the share capital of our Company immediately after the Global Offering will be 466,700,000 Shares, comprising 350,000,000 Domestic Shares and 116,700,000 H Shares. The particulars of our shareholding structure will be as follows:

Description of Shares	Class	Number of Shares	Approximate percentage of total share capital
Changchun Heating Group	Domestic Shares	325,500,000	69.75%
Changchun SCIO Group	Domestic Shares	24,500,000	5.25%
H Shares issued pursuant to the Global Offering	H Shares	116,700,000	25.00%
Total share capital		466,700,000	100%

SHARE CAPITAL

Immediately after completion of the Global Offering, assuming an Offer Price of HK\$2.20 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment Option is exercised in full, our total issued share capital is expected to be 484,200,000 Shares, comprising 350,000,000 Domestic Shares and 134,200,000 H Shares. The particulars of our shareholding structure immediately after completion of the Global Offering is expected to be as follows:

Description of Shares	Class	Number of Shares	Approximate percentage of total share capital
Changchun Heating Group	Domestic Shares	325,500,000	67.22%
Changchun SCIO Group	Domestic Shares	24,500,000	5.06%
H Shares issued pursuant to the Global Offering	H Shares	134,200,000	27.72%
Total share capital		<u>484,200,000</u>	<u>100%</u>

OUR SHARES AND RANKING

Domestic Shares and H Shares to be issued in the Global Offering are both ordinary shares in the share capital of our Company. However, the H Shares can only be subscribed for and traded in Hong Kong dollars by or between, qualified domestic institutional investors, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, can only be subscribed for and traded in Renminbi by or between, qualified foreign institutional investors, legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan). All dividends in respect of H Shares are to be declared in Renminbi and paid by our Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be declared and paid by our Company in Renminbi.

All of the existing Domestic Shares are held by two existing Shareholders. Upon the approval of the relevant regulatory authorities of the PRC and Hong Kong, the Domestic Shares may be converted into H Shares.

Pursuant to our Articles of Association, the rights conferred on any class Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by a separate meeting of Shareholders convened by the affected class Shareholders. The circumstance deemed to be a variation or abrogation of the rights of a class Shareholder are set out in the section headed “Appendix V – Summary of Articles of Association” in this prospectus. However, the special procedures for voting by class Shareholders do not apply (i) where upon approval by a special resolution of Shareholders in general meeting, we issue Domestic Shares and H Shares, either separately or concurrently once every 12 months, and the Domestic Shares and H Shares to be issued are not more than

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20% of the existing issued shares of such class, respectively; (ii) where our plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval of the securities regulatory authorities of the State Council; or (iii) where the Domestic Shares held by the promoters are converted to H Shares upon approval by the securities regulatory authorities of the State Council, and are listed and traded on the Hong Kong Stock Exchange. Domestic Shares and H Shares are regarded as different classes of Shares under our Articles of Association.

The differences between Domestic Shares and H Shares, and the provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the procedure of Share transfer and appointment of dividend receiving agents are set out in our Articles of Association and summarized in the section headed “Appendix V – Summary of Articles of Association” in this prospectus.

Except for the differences above, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be calculated in Renminbi and paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi. In addition to cash, dividends may be distributed in the form of Shares.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

Upon completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares. All of our Domestic Shares are shares which are not listed or traded on any stock exchange. According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, all requisite internal approval processes (but without the necessity of Shareholders’ approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of our Domestic Shares are to be converted and to be traded as H Shares on the Hong Kong Stock Exchange, such conversion require the approval of the relevant PRC regulatory authorities, including the CSRC. The listing of such converted H Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange at the time of conversion instead of at the time of our initial listing. The approval of the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange as an

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administrative matter only. Based on the methodologies and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Hong Kong Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

Please see sections headed “Risk Factors – Risks Relating to the Global Offering – The sales or potential sales of substantial amounts of our H Shares in the public market (including any future offering) may affect the prevailing market price of our H Shares and our ability to raise capital in the future, and future additional issuance of securities may dilute your shareholdings” in this prospectus.

Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates; and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders currently proposes to convert any of the unlisted Shares held by it into H Shares.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon listing and provide a written report to the CSRC regarding the centralized registration and deposit of the Domestic Shares as well as the offering and listing of the H Shares.

FINANCIAL INFORMATION

The following discussion and analysis of our business, financial condition and results of operations are based on and should be read in conjunction with our financial statements as at and for each of the years or period ended 31 December 2016, 2017 and 2018 and 31 March 2019, including the notes thereto, as set out in “Appendix I – Accountants’ Report” and other financial information appearing elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. We have applied IFRS 9, IFRS 15 and IFRS 16, which became effective for annual period beginning on or after 1 January 2018, to our financial statements during the Track Record Period. You should read the entire Accountants’ Report and not merely rely on the information contained in this section.

This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties including, but not limited to, those factors included in the section headed “Risk Factors” in this prospectus. Our future results could differ materially from those projected in the forward-looking statements.

OVERVIEW

Heat supply is our core business. We are the largest heat service provider in Jilin Province in terms of heat service area in 2018, according to the Frost & Sullivan Report. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our heat service area was approximately 33.2 million sq.m., 35.8 million sq.m., 38.5 million sq.m. and 38.5 million sq.m., respectively. As at 31 December 2018, our heat service area accounted for approximately 6.3% and 15.4% of the total heat service area in Jilin Province and Changchun, respectively. During the Track Record Period, our heat was sourced through two channels, including (i) heat procured from local cogeneration plants; and (ii) heat produced by coal-fired boilers. We completely ceased our heat production by coal-fired boilers upon the expiration of the heat supply period in April 2018 and our heat is currently fully sourced from the local cogeneration plants, which are Independent Third Parties. Our heat supply customers include residential and non-residential end-users located within our heat service area. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had 258,098, 284,750, 306,966 and 306,966 customers, respectively. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue generated from our heat supply business was approximately RMB782.0 million, RMB854.8 million, RMB939.5 million and RMB487.5 million, representing approximately 92.2%, 77.1%, 65.2% and 88.8% of our total revenue, respectively.

We also offer construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. Our construction, maintenance and design services, together with our heat supply, cover a wide spectrum of services of the industrial chain. Our footprints of construction, maintenance and design services mainly cover Northeast China. The business industry in which customers of our construction, maintenance and design services

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operate covers a broad range, including among others, heat supply, property development and civil construction. During the Track Record Period, our construction, maintenance and design services experienced a significant growth. Revenue generated from our construction, maintenance and design services increased by approximately RMB187.2 million, or 281.8%, from approximately RMB66.4 million for the year ended 31 December 2016 to RMB253.6 million for the year ended 31 December 2017, and by approximately RMB247.0 million, or 97.4% to approximately RMB500.6 million for the year ended 31 December 2018, and increased by approximately RMB34.7 million, or 130.2%, from approximately RMB26.7 million for the three months ended 31 March 2018 to approximately RMB61.4 million for the three months ended 31 March 2019.

We have achieved a track record of sustainable growth. Our revenue increased from approximately RMB848.4 million for the year ended 31 December 2016 to approximately RMB1,108.4 million for the year ended 31 December 2017, and further increased to approximately RMB1,440.2 million for the year ended 31 December 2018, with a CAGR of approximately 30.3%, and increased by approximately RMB53.5 million, or 10.8%, from approximately RMB495.4 million for the three months ended 31 March 2018 to approximately RMB548.9 million for the three months ended 31 March 2019. Our profit for the year increased from approximately RMB72.8 million for the year ended 31 December 2016 to approximately RMB85.8 million for the year ended 31 December 2017, and further to approximately RMB102.7 million for the year ended 31 December 2018, with a CAGR of approximately 18.8%, and increased by approximately RMB42.5 million, or 49.5%, from approximately RMB86.0 million for the three months ended 31 March 2018 to approximately RMB128.6 million for the three months ended 31 March 2019.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations, financial condition and future prospects have been, and will continue to be, affected by a number of factors, including those set out below.

Changes in PRC Government's regulation over our business

Heat supply

During the Track Record Period, a substantial portion of our revenue was generated from our heat supply business. Our heat supply business is subject to various PRC laws, regulations and policies which cover a wide range of areas including project approval, heat supply, price, environmental protection and safety. For more information of the relevant PRC laws, regulations and policies, please refer to the section headed “Regulatory Overview” in this prospectus. As such, any significant changes in these laws, regulations and policies applicable to our heat supply business may materially affect our results of operations and financial condition. For more information, please refer to the section headed “Risk Factors – Risks relating to our Industries – Any future changes in laws or regulations or enforcement policies in relation to the heat supply industry could materially and adversely affect our business, results of operations and financial condition” in this prospectus.

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Specifically, our revenue generated from heat supply business is primarily determined by our heat service area and heat rates we charged our heat supply end-users. Heat service area of a particular heat service provider is subject to a municipal planning by the local government while benchmark heat rates are set by the local authorities. On the other hand, cost structure of heat supply business is mostly affected by heat procurement price which is also subject to benchmark rates published by the local authorities.

Expansion of our heat service area

During the Track Record Period, our heat service area increased by 2.6 million sq.m., or 7.8%, from 33.2 million sq.m. as at 31 December 2016 to 35.8 million sq.m. as at 31 December 2017, and by 2.7 million sq.m., or 7.5%, to 38.5 million sq.m. as at 31 December 2018, and remained as approximately 38.5 million sq.m as at 31 March 2019. Apart from our efforts in obtaining the heat service area, the growth of our heat service area was also attributable to (i) organic growth of heat service areas driven by urbanization; (ii) requests from end-users whose heat service areas were originally covered by boiler plants for connection to our heat distribution network; and (iii) our obtaining the heat service areas which are released from the coverage of phased-out boiler plants.

Pursuant to the relevant PRC laws and regulations, heat service area of a particular heat service provider and the construction of primary distribution pipelines are subject to a municipal planning by the local government. We believe that our revenue generation relating to our existing heat service area will remain stable as we are as a matter of fact the sole heat service provider within our existing heat service area. Other heat service providers are unlikely to enter our existing heat service area due to the significant entry barriers. For more information relating to the entry barriers of heat supply, please refer to the section headed “Industry Overview – Entry Barriers” and “Business – Our Competitive Strengths – We were the largest heat service provider in Jilin Province in 2018 with leading market position and we operate in the heat supply market where there are significant barriers to entry.” in this prospectus. However, addition to our heat service area is subject to municipal planning and the relevant authority’s authorization. Any future changes in the overall municipal planning in terms of heat service area or the laws and regulations requiring such planning, or our failure to obtain authorization to operate in the areas we wish to expand, will materially affect our growth potentials. For risks relating to the expansion of heat service area, please refer to the section headed “Risk Factors – Risks relating to our Business – We may not be able to expand our heat service area if we are not authorized by local government to operate in the areas we wish to cover” in this prospectus. Moreover, taking over heat service areas released from those originally covered by phased-out boiler plants are subject to approvals from the relevant authorities. Our failure to obtain such approvals may result in our inability to grow our heat service area, which may further affect our results of operations and financial condition.

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Heat rate

Benchmark heat rates applicable to residential and non-residential end-users are both formulated by competent authorities pursuant to the relevant laws and regulations. Competent authorities may adjust benchmark heat rates due to various reasons, such as increase of costs in heat production, which may further affect our revenue generated from heat supply business. For more information, please refer to the sections headed “Regulatory Overview – Heat Supply – Pricing”, “Industry Overview – Heat Source and Municipal Heating Price”, “Risk Factors – Risks relating to our Business – We do not have control over the pricing of heat supply (both heat procurement price with cogeneration plants and heat rates charging end-users) and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost” and “Business – Heat Supply – Sale of Heat – Pricing” in this prospectus.

The table below sets out prevailing heat rates applicable to residential and non-residential end-users during the Track Record Period.

	For the year ended 31 December			For the three months ended
	2016	2017	2018	31 March 2019
	RMB/sq.m.	RMB/sq.m.	RMB/sq.m.	RMB/sq.m.
Heat rate⁽¹⁾				
Residential end-users	27	27	27	27
Non-residential end-users ⁽²⁾	31-34 ⁽³⁾⁽⁴⁾⁽⁵⁾	31	31	31

Notes:

- (1) Heat supply end-users who apply for and are approved by us to suspend their heat supply may pay 20% of the total heat fees based on their respective heat service areas. As at 31 March 2019, our active heat service area for which we charged the full amount of the heat fees was approximately 31.4 million sq.m.. For the rest of the heat service area, which was approximately 7.1 million sq.m., we charged 20% of the heat fees.
- (2) Non-residential end-users include commercial end-users and other end-users which primarily include industrial end-users and underground parking space end-users.
- (3) According to Changchun Municipal Government’s Notice on Heat Rate Adjustment in Changchun City (《長春市人民政府關於調整長春市城區供熱價格的通知》(長府發[2015]21號)), effective from the heat supply period of 2015-2016, heat rate in Changchun was RMB34 per sq.m. for non-residential properties and RMB31 per sq.m. for other properties, respectively.
- (4) According to Notice on Adjustment on Heat Rate for Services Industry in Changchun City (《關於調整長春市城區服務業供熱價格的通知》(長發改價格聯[2016]267號)), heat rate for commercial properties was reduced from RMB34 per sq.m. to RMB31 per sq.m. commencing from the heat supply period of 2016-2017.
- (5) Heat rate of the underground parking space in the public areas is 50% of that for commercial properties, i.e., RMB15.5 per sq.m. In addition, we are permitted to charge additional heat fees for properties with extra high ceilings.

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Heat procurement price

During the Track Record Period, our heat was mostly sourced from cogeneration plants and therefore our results of operation are mostly affected by our heat procurement costs. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, in terms of volume, approximately 67.9%, 68.8%, 82.7% and 100% of our heat was procured from local cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant. We discontinued in part our heat production by coal-fired boilers from February 2018 following our entering into a heat procurement agreement with No. 5 Cogeneration Plant, a new cogeneration plant which came into operation in end of 2017. Upon the expiration of the heat supply period in April 2018, we completely ceased our heat production by coal-fired boilers and all of the heat demand is satisfied by heat procurement from the three local cogeneration plants. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our heat procurement cost was approximately RMB181.1 million, RMB199.0 million, RMB312.8 million and RMB228.1 million, representing 24.9%, 21.6%, 25.7% and 61.1% of our total cost of sales for the same periods, respectively.

Heat procurement cost consists of two categories of fees, including (i) fees charged for basic heat supply at a benchmark rate approved by the national and local pricing bureaus, currently at RMB27.5/GJ (VAT included), and in some cases at a higher rate for procured volume that exceeds a certain agreed level; and (ii) fees charged for water loss during heat transmission based on a rate as agreed by both parties, by reference to a benchmark rate of water set by the relevant authority and other operational costs, currently at approximately RMB6.6/ton. Similar to heat rates, benchmark heat procurement price is also subject to adjustments by competent authorities in consideration of various factors such as fluctuation in costs of raw materials, reasonable profits of the cogeneration plants and the interests of the heat supply companies and the end-users, which are out of our control. For risks relating to PRC Government's control over heat procurement price, please refer to the section headed "Risk Factors – Risks relating to our Business – We do not have control over the pricing of heat supply (both heat procurement price with cogeneration plants and heat rates charging end-users) and construction, maintenance and design services which are both restricted by the PRC Government and our profit may be materially and adversely affected if the price adjustments are not proportionate to the increase of our cost" in this prospectus. Any fluctuation of heat procurement price applicable to our heat supply business in the future will continue to materially affect our results of operation and financial condition.

The table below sets out information in relation to our heat procurement price during the Track Record Period.

	For the year ended 31 December			For the three months ended
	2016	2017	2018	31 March 2019
Heat procurement cost (RMB'000)	181,059	198,955	312,819	228,125
Volume (GJ)	7,439,874	8,069,614	11,835,274	7,965,839
Average heat procurement price (RMB/GJ) (VAT excluded)	24.3	24.7	26.4	28.6

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Sensitivity analysis

For illustrative purposes, the table below sets out a sensitivity analysis of (i) the effect of fluctuations of our heat rates; and (ii) the effect of fluctuations of our heat procurement price on our profit before tax during the Track Record Period. Fluctuations are assumed to be 5% and 10%, respectively.

	Impact on profit before tax			For the three months ended
	For the year ended 31 December			31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Heat Rate				
+/- 5%	+/-36,204	+/-39,619	+/-43,769	+/-23,467
+/- 10%	+/-72,409	+/-79,238	+/-87,539	+/-46,933
Heat procurement price				
+/- 5%	+/- (9,053)	+/- (9,948)	+/- (15,641)	+/- (11,406)
+/- 10%	+/- (18,106)	+/- (19,896)	+/- (31,282)	+/- (22,813)

Construction, maintenance and design services

Our construction, maintenance and design services include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. Similar to heat rate, our fees for provision of these services are subject to the relevant authority's pricing guidelines. As such, we are subject to fluctuations of pricing due to the changes in authority's guidelines and applicable to our construction, maintenance and design services in the future, which may continue to affect our results of operation and financial condition.

Government grants available to us

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we received government grants in connection with certain financial support to local business enterprises for the purpose of encouraging business development in relation to heat supply business. These government grants are not subject to any unfulfilled conditions and other contingencies and have been received by us and recognized under other income and gains in the amount of approximately RMB14.4 million, RMB33.0 million, RMB11.6 million and RMB0.4 million for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. Specifically, the government grants we received were primarily relating to (i) our taking over of heat service areas released from those originally covered by phased-out boilers which were of smaller scale or with lower capacity; (ii) subsidy for coal purchase; and (iii) our efforts in upgrading aged heat distribution pipelines. There is no assurance that we will continue to receive government grants currently available to us in the future. Any discontinuation or substantial reduction of the government grants available to us would adversely affect our financial condition and performance.

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Market demand for our construction, maintenance and design services

Market demand for our construction, maintenance and design services is one of the key drivers of our revenue and it mostly depends on the development of heat supply industry in Jilin Province, which is the main downstream industry of our construction, maintenance and design services. During the Track Record Period, revenue generated from our construction, maintenance and design services increased significantly by approximately RMB187.2 million, or 281.8%, from approximately RMB66.4 million for the year ended 31 December 2016 to RMB253.6 million for the year ended 31 December 2017, and by approximately RMB247.0 million, or 97.4% to approximately RMB500.6 million for the year ended 31 December 2018, and increased by approximately RMB34.7 million, or 130.2%, from approximately RMB26.7 million for the three months ended 31 March 2018 to approximately RMB61.4 million for the three months ended 31 March 2019. The significant increase of revenue generated from our construction, maintenance and design services was primarily due to our involvement in projects in connection with the Three Supplies and Property Management Operations arising from demand of certain state-owned enterprises to outsource the services of supply of water, electricity and heat and property management. For more information, please refer to the section headed “Relationship with our Controlling Shareholder – Independence from our Controlling Shareholder” in this prospectus. Given that the projects relating to the Three Supplies and Property Management Operations are non-recurring in nature, we expect that revenue contribution from these projects will begin to decrease following the completion of ongoing projects from 2020. However, according to the Frost & Sullivan Report, the total heat service area of municipal heating in Jilin is expected to increase to 782.8 million sq.m. in 2023, with a CAGR of 4.9% from 2019 to 2023. The pipeline length of municipal centralized heating in Jilin Province is expected to increase to 41,100 kilometers in 2023, with a CAGR of 7.8% from 2019 to 2023. As the heat supply industry in Jilin Province is expected to grow steadily, market demand for our construction, maintenance and design services is likely to remain stable, which may strengthen our results of operation.

Fluctuations in coal price

Coal was the primary raw material used for the heat production by coal-fired boilers. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, we purchased coal in an amount of approximately 306,219 tons, 350,703 tons, 234,285 tons and nil, respectively. For the same periods, our coal cost was approximately RMB116.7 million, RMB160.0 million, RMB114.8 million and nil, respectively. While we completely ceased our heat production by coal-fired boilers in April 2018 thus ceased our coal procurement from then on, coal remains a major raw material for heat production at the cogeneration plants. As a result, our heat supply business remains indirectly subject to the fluctuation in coal price, yet to a lesser extent. According to the Frost & Sullivan Report, coal price in the PRC experienced fluctuations in the past few years. For example, coal price in the PRC kept decreasing from 2013 to 2015 and remained stable during the first half of 2016, while it started to rise since the second half of 2016. According to a guiding opinion published by the pricing bureau of Jilin Province in July 2018, when the local weighted average coal price fluctuates by more than 10%, the heat ex-factory price of cogeneration plants and heat rate could be adjusted

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accordingly. For more information, please refer to the section headed “Industry Overview – Heat Source and Municipal Heating Price” in this prospectus. In other words, our heat procurement price from cogeneration plants may increase in response to an increased coal price. Accordingly, our business, financial conditions and results of operation are to a certain extent subject to the fluctuations in coal price in the future.

Seasonality

Both of our heat supply business and construction, maintenance and design services are subject to seasonality. During the Track Record Period, our heat supply business experienced seasonality due to its business nature. Revenue generated from heat supply is recognized over the heat supply period (which is usually consistent with heat supply period that lasts from October each year to the following April) by reference to the progress towards complete satisfaction of the performance obligation. As a result, our revenue is higher in the first and fourth quarter during each financial year. In addition, we incur our cost of sales for heat supply during different periods of the year (that is, heat and coal procurement costs are typically incurred over the heat supply period, while maintenance and repair cost incurs outside heat supply period during which maintenance and repair work is carried out and the rest of the cost components such as staff cost and depreciation spread throughout the year). In addition, our financial performance of heat supply business may vary depending on weather condition. For more information, please refer to the section headed “Risk Factors – Heat supply is affected by the overall weather condition during the heat supply period” in this prospectus. As such, our quarterly or interim results, or our financial performance of a particular year, may not be a meaningful indicator of our annual performance.

Our construction, maintenance and design services also experienced seasonality during the Track Record Period, due to the fact that most of the projects were undertaken outside the heat supply period to avoid interruption or suspension to the continuous heat supply. As a result, revenue generated from our construction, maintenance and design services was generally recognized in the second half of the year. Therefore, you may not solely rely on our quarterly or interim results in assessing our overall performance.

BASIS OF PRESENTATION

Our Company was established as a limited liability company in the PRC on 23 October 2017. Our Company and its subsidiaries now comprising our Group underwent certain transactions, which was defined Reorganization as set out in the paragraph headed “Reorganization” in the section headed “History, Development and Reorganization” in this prospectus. Pursuant to the Reorganization, the companies now comprising our Group became under control by our Controlling Shareholder on 1 January 2018. The companies now comprising our Group were under the common control of our Controlling Shareholder before and after the Reorganization. The Accountants’ Report included in Appendix I to this prospectus was prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

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The historical financial information includes the assets, liabilities, results of the operations and cash flows of the Core Operations, except for those of Lvxin Division which were not acquired by our Company. Lvxin Division had been separately managed and financially controlled within our Controlling Shareholder, and it is practicable to identify the historical financial information attributable to Lvxin Division. In the opinion of our Directors, the assets, liabilities and results of operations and cash flows of Lvxin Division were immaterial for the years ended 31 December 2016 and 2017 when compared with those of our Group.

The historical financial information includes the Boiler Assets and the related liabilities before the Reorganization because the Boiler Assets were directly related to the Core Operations for the years ended 31 December 2016 and 2017. The Boiler Assets and the related liabilities were then derecognized as a distribution to the Shareholder on 1 January 2018.

The historical financial information does not include the assets, liabilities, results of the operations and cash flows of the Other Investments (which are defined as certain investments in associates and investments in unlisted companies at fair value through other comprehensive income, which were not related to the Core Operations) on the basis that the Other Investments have separate management personnel and accounting records and have been financed and have operated historically as if they were autonomous.

The historical financial information does not include the assets, liabilities, results of the operations and cash flows of the Non-core Subsidiaries (which are defined as two subsidiaries held by Changchun Runfeng, a then directly owned subsidiary of our Controlling Shareholder) on the basis that they had separate management personnel and accounting records and had been financed and had operated historically as if they were autonomous.

The Other Retained Assets and Liabilities were essential components that historically supported the Core Operations. Accordingly, they were included in the historical financial information of our Group before the date of completion of the Reorganization and were then derecognised as a distribution to the Shareholder (i.e. Changchun Heating Group) on 1 January 2018.

Since the equity interests in FAW Sihuan were transferred by our Controlling Shareholder to our Company on 1 January 2018, it was accounted for an acquisition of a joint venture with an amount of RMB63,557,000 credited to equity attributable to the owners of our Company on that date in the historical financial information.

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The carrying amount of the assets and liabilities of the Boiler Assets and Other Retained Assets and Liabilities distributed to the Shareholder (i.e. Changchun Heating Group) as at 1 January 2018 are as follows:

	As at 1 January 2018 RMB'000
Right-of-use assets	29,718
Intangible assets	245
Property, plant and equipment	286,167
Investment properties	1,215
Deferred tax assets	24,833
Inventories	12
Trade receivables	3,819
Cash and cash equivalents	47,982
Prepayments and other receivables	99,935
Other assets	19,940
	<hr/>
Total assets	513,866
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Trade payables	13,682
Other payables and accruals	145,577
Interest-bearing bank and other borrowings	163,521
Tax payable	79,073
Other liabilities	77,727
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Total liabilities	479,580
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	34,286
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We set out below (i) the details of the major underlying assets and liabilities included in the Other Retained Assets and Liabilities; and (ii) the reasons for derecognizing the Other Retained Assets and Liabilities in spite of the fact that they were essential components that historically supported the Core Operations:

- (1) Property, plant and equipment mainly represented the Boiler Assets of approximately RMB196.9 million and a portion of office properties, office equipment and motor vehicle retained (“**Office Assets**”) of approximately RMB89.3 million, for the retained operation of Changchun Heating Group. Details are as follows:
 - (i) our Group discontinued its heat production by coal-fired boilers since April 2018 and relies entirely on heat procured from local cogeneration plants going forward. Hence, the Boiler Assets were essential components supporting the Core Operations during the Track Record Period but are not necessary for our Group’s future operation, and therefore were included in the historical financial information of our Group for 2016 and 2017 and derecognized as a distribution to the Shareholder (i.e. Changchun Heating Group) on 1 January 2018.
 - (ii) given the practical difficulties to distinguish which of the Office Assets had been used by our Group exclusively between the Core Operations and the retained operation of Changchun Heating Group, the Office Assets were included in the historical financial information of our Group prior to the Reorganization. Changchun Heating Group retained the Office Assets for its business operation and did not transfer them to our Group.
- (2) A portion of cash and cash equivalents of approximately RMB48.0 million were retained by Changchun Heating Group in order to maintain sufficient working capital for the remaining operation of Changchun Heating Group after the Reorganization, such as (i) the operating expenses of Lvxin Division, including utility bills, labor and maintenance costs; and (ii) administrative expenses of Changchun Heating Group, including wages, insurance and social benefits, and general office expenses, which in aggregate amounted to over RMB30.0 million. Such cash and cash equivalents were generated primarily from operation of the Core Operations prior to the Reorganization and were historically essential components of the Core Operations.

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- (3) Prepayments and other receivables mainly represented the payments by Changchun Heating Group on behalf of Changchun Public Administration Bureau for certain municipal engineering projects and amounts due from related parties for certain transactions which are non-trade in nature transactions. Details are set out below:
- (i) Changchun Heating Group was appointed by the Changchun Public Administration Bureau as the main contractor to carry out certain municipal engineering projects in 2017 and made payments in an aggregate amount of approximately RMB39.8 million to the subcontractors on behalf of the Changchun Public Administration Bureau. Such amounts were paid out of the cash generated from the Core Operations and thus were included in the historical financial information of our Group. As Changchun Heating Group was the entity appointed by the Changchun Public Administration Bureau as the main contractor and made payments to the subcontracts on behalf of Changchun Public Administration Bureau, repayments by the Changchun Public Administration Bureau should be made to it directly otherwise consent will need to be obtained from the Changchun Public Administration Bureau to assign the receivables from Changchun Heating Group to our Group which will be administratively burdensome.
 - (ii) the amounts due from related parties were mainly paid out of the cash generated from the Core Operations and thus were included in the historical financial information of our Group. As such assets were not related to our Group's business operations after the Reorganization and were non-trade in nature transactions with related parties, they were not transferred to our Group.
- (4) Other payables and accruals of approximately RMB145.6 million mainly included amounts due for non-trade in nature transactions of approximately RMB84.7 million, and deposits, construction and maintenance payments for the Boiler Assets and the Office Assets amounting to approximately RMB30.7 million. Details are as follows:
- (i) the amounts due were resulted from certain non-trade in nature transactions and mainly included amounts due to related parties and Changchun Municipal Bureau of Finance* (長春市財政局). Such amounts were mainly funds collected from the subsidiaries of Changchun Heating Group for central fund management, part of which were utilized for the Core Operations and thus were included in the historical financial information of our Group. As such liabilities were resulted from non-trade in nature transactions with related parties, they were not transferred to our Group. In addition, it would also be difficult to obtain consent from Changchun Municipal Bureau of Finance to novate the payables from Changchun Heating Group to our Group.

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- (ii) the deposits, construction and maintenance payments for the Boiler Assets and the Office Assets were mainly related to the Boiler Assets and the Office Assets, and thus were historically essential components supporting the Core Operations during the Track Record Period. As the Boiler Assets and the Office Assets were derecognized as a distribution to the Shareholder (i.e. Changchun Heating Group) on 1 January 2018 as described in paragraph (1) above, such payables were not transferred to our Group.
- (5) Interest-bearing bank and other borrowings of approximately RMB163.5 million were essential components of the Core Operations before the Reorganization, and therefore were included in the historical financial information of our Group. As our Group no longer require such bank and other borrowings for its business operation after the Reorganization and had sufficient working capital, our Group did not obtain the requisite consent from the relevant banks or lenders for novating the borrowings and did not transfer them to our Group.
- (6) Tax payables of approximately RMB79.1 million and deferred tax assets of approximately RMB24.8 million were primarily incurred or generated from the Core Operations prior to the Reorganization, therefore were historically essential components of the Core Operations. According to Article 1 of the EIT Law, “Enterprise income taxpayers shall be enterprises within the PRC and other organizations that obtain income within the PRC and shall pay enterprise income tax in accordance with the provisions of this Law.” Since the relevant taxable income of the Core Operations was generated by Changchun Heating Group prior to the Reorganization, the taxpayer remained to be Changchun Heating Group despite the transfer of the Core Operations to our Group as part of the Reorganization. Therefore, the tax payables and relevant deferred tax assets were not transferred to our Group during the Reorganization. Changchun Heating Group undertook such tax payable and subsequently settled the tax payment accordingly.
- (7) Other liabilities of approximately RMB77.7 million mainly included the advances received of approximately RMB41.8 million in relation to heat supply measurement upgrade projects promoted by the municipal government of Changchun, and payroll payables due to employees who were not transferred to our Company of approximately RMB19.6 million. Details are as follows:
 - (i) pursuant to the heat supply measurement upgrade projects promoted by the municipal government of Changchun, Changchun Heating Group was required to install heat supply measurement terminal in different local communities. Changchun Heating Group had charged heat measurement terminal upgrade fee to the real estate developers which was recorded as contract liabilities on collection. However, due to uncertainties surrounding the heat measurement terminal upgrade projects, they were put on hold and Changchun Heating Group will bear the future performance obligations if the projects recommence.

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Such amounts were not transferred to our Company as the upgrade projects were distinct from our Group's operation and will not affect the operation of our Group's existing heat supply business.

- (ii) employees who were not transferred to our Group were mainly employees responsible for the operation and maintenance of the Boiler Assets and certain administrative work. Their payroll payables were historically essential components supporting the Core Operations during the Track Record Period and were included in the historical financial information of our Group prior to the Reorganization. The amounts payables were not transferred to our Group as the employees were not transferred either.

The assets and liabilities mentioned above were recorded individually in the underlying financial records and our Group can identify such items on a case by case basis according to the attributes or the specific details of such items.

The Historical Financial Information in the Accountants' Report has been prepared in accordance with IFRS, which comprise all standards and interpretations approved by the International Accounting Standards Board. All IFRS effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the Historical Financial Information of the Accountants' Report and consistently applied throughout the Track Record Period.

The Historical Financial Information of the Accountants' Report has been prepared under the historical cost convention, except for financial assets at fair value through the profit and loss.

Early Application of IFRS 9, IFRS 15 and IFRS 16

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments" for recognition and measurement for financial assets and liabilities. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. We have elected to early apply IFRS 9, which has been applied consistently throughout the Track Record Period.

We have assessed the effects of early adoption of IFRS 9 on our financial statements and concluded that there was no significant impact on our financial position and performance as compared to the previous requirements of IAS 39, specifically because:

- (1) notwithstanding the reclassification, all our financial assets and financial liabilities would be measured on the same bases under IFRS 9 and IAS 39; and

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- (2) the application of expected credit loss model under IFRS 9 would not cause a material impact on the impairment loss allowance for our financial assets measured at amortized cost during the Track Record Period as compared with the incurred loss model under IAS 39.

IFRS 15 “Revenue from contracts with customers”

IFRS 15 “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and we have early applied IFRS 15 to our financial statements, which has been applied consistently throughout the Track Record Period.

We have assessed the effects of early adoption of IFRS 15 on the financial statements and concluded that there is no significant impact on our financial position and financial performance as compared to the previous requirements of IAS 18 except that certain reclassification would be need to be made under IFRS 15.

IFRS 16 “Leases”

IFRS16 “Leases”, which is effective for annual periods beginning on or after 1 January 2019, has been early adopted by our Company in the preparation of the Historical Financial Information throughout the Track Record Period. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. IFRS 16 includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The adoption of IFRS 16 did not have a significant impact on the financial position and performance of our Group compared to that of IAS 17.

For more information on the basis of preparation of the financial information included in the Accountants’ Report, please see Note 2.2 of Section II to the Accountants’ Report included in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Some of our significant accounting policies involve subjective assumption and estimates, as well as complex judgments by our management relating to accounting items. Our significant accounting policies are set out in detail in Note 4 to the Accountants’ Report included in Appendix I to this prospectus.

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The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of significant accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

Revenue and other income recognition

Revenue from contracts with customers

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

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

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

(1) Provision and distribution of heat

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

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(2) Pipeline connection fee

Our Group receives a pipeline connection fee from customers for the connection of our Group's main heat pipeline with customers' residential households. The pipeline connection fee is non-refundable and represents an advance payment for future service of provision of heat. Revenue from the pipeline connection fee is recognized over the period of the expected customer beneficial period for the pipeline connection, which is estimated to be the same as the pipeline's useful life of around 16 years.

(3) Heat transmission service

Revenue from the provision of the heat transmission services is recognized at the point in time when control of the heat is transferred to the customer, generally when heat is supplied to the customers. We only recognized the heat transmission fee and did not recognize the heat procurement fee for the heat procured from the cogeneration plants and transferred to the other heat service providers since it is in nature tantamount to payment on behalf of the heat service providers to the cogeneration plants.

(4) Engineering construction and maintenance services

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

(5) Other services rendered

Revenue from other services rendered, including design, consulting and feasibility studies with respect to heating projects, is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

(6) Sales of goods

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

Other income

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

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Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to our Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If our Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

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

Employee benefits

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

Social pension plans

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

Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by our Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Our Group recognizes termination and early retirement benefits when it is demonstrably committed to termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination

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benefits are measured based on the number of employees expected to accept the offer. Actuarial gains and losses are included in statement of profit or loss when incurred. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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

Defined benefit plan

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

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

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

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Housing fund and other social insurances

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

Apart from those described above, our Group does not have legal or constructive obligations over employee benefits.

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Property, plant and equipment

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

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

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

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

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

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

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

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Impairment of non-financial assets

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

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

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

Impairment of financial assets

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

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL).

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For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

For debt investments at fair value through other comprehensive income, our Group applies the low credit risk simplification. At each reporting date, our Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, our Group reassesses the external credit ratings of the debt investments. In addition, our Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

- Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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Simplified approach

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

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

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

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Our Group's investments in joint ventures are stated in the consolidated statement of financial position at our Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Our Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the joint venture, our Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between our Group and its joint ventures are eliminated to the extent of our Group's investments in the joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of our Group's investments in joint ventures.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Leases

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, our Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by our Group and payments of penalties for terminating a lease, if the lease term reflects our Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, our Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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Short-term leases and leases of low-value assets

Our Group applies the short-term lease recognition exemption to its short-term leases of offices and warehouse (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of offices and warehouse that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

RESULT OF OPERATIONS

The following table shows statements of comprehensive income derived from our consolidated financial information for the periods indicated:

	For the year ended 31 December 2016		For the year ended 31 December 2017		For the year ended 31 December 2018		For the three months ended 31 March 2018 (Unaudited)		For the three months ended 31 March 2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue	848,431	100.0%	1,108,373	100.0%	1,440,159	100.0%	495,392	100.0%	548,894	100.0%
Cost of Sales	(727,557)	(85.8)%	(920,365)	(83.0)%	(1,215,485)	(84.4)%	(368,985)	(74.5)%	(373,072)	(68.0)%
Gross profit	120,874	14.2%	188,008	17.0%	224,674	15.6%	126,407	25.5%	175,822	32.0%
Other income and gains	46,784	5.5%	52,148	4.7%	20,955	1.5%	2,264	0.5%	2,928	0.5%
Administrative expenses	(66,193)	(7.8)%	(92,354)	(8.3)%	(72,827)	(5.1)%	(16,759)	(3.4)%	(20,781)	(3.8)%
Reversal of impairment/ (impairment) on financial and contract assets, net	5,937	0.7%	(9,831)	(0.9)%	(23,319)	(1.6)%	3,080	0.6%	12,537	2.3%
Other expenses	(2,406)	(0.3)%	(17,439)	(1.6)%	(357)	(0.0)%	–	–%	(22)	(0.0)%
Finance costs	(5,398)	(0.6)%	(5,313)	(0.5)%	(11,344)	(0.8)%	(2,544)	(0.5)%	(2,365)	(0.4)%
Share of profits and losses of a joint venture	–	–	–	–	1,501	0.1%	2,075	0.4%	2,666	0.5%
Profit before tax	99,598	11.7%	115,219	10.4%	139,283	9.7%	114,523	23.1%	170,785	31.1%
Income tax expense	(26,804)	(3.1)%	(29,387)	(2.7)%	(36,606)	(2.6)%	(28,499)	(5.7)%	(42,222)	(7.7)%
Profit for the year	72,794	8.6%	85,832	7.7%	102,677	7.1%	86,024	17.4%	128,563	23.4%
Attributable to:										
Owners of our Company	72,794	8.6%	85,832	7.7%	102,677	7.1%	86,024	17.4%	128,563	23.4%
Non-controlling interests	–	–	–	–	–	–	–	–	–	–
	<u>72,794</u>	<u>8.6%</u>	<u>85,832</u>	<u>7.7%</u>	<u>102,677</u>	<u>7.1%</u>	<u>86,024</u>	<u>17.4%</u>	<u>128,563</u>	<u>23.4%</u>
Earnings per share										
Basic	0.21	–	0.25	–	0.29	–	0.25	–	0.37	–
Diluted	0.21	–	0.25	–	0.29	–	0.25	–	0.37	–

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PRINCIPAL COMPONENTS OF OUR INCOME STATEMENT

Revenue

During the Track Record Period, our revenue was derived from two business segments, namely (i) heat supply business; and (ii) construction, maintenance and design services. During the Track Record Period, a substantial majority of our revenue was derived from Jilin Province. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our revenue was approximately RMB848.4 million, RMB1,108.4 million, RMB1,440.2 million and RMB548.9 million, respectively. For revenue recognition, please refer to the paragraph headed “– Critical Accounting Policies – Revenue and other income recognition” in this section of this prospectus.

The following table sets out our revenue breakdown by business segment for the periods indicated.

	2016		For the year ended 31 December 2017		2018		For the three months ended 31 March 2018		2019	
							(Unaudited)			
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue										
Heat supply, of which:	782,013	92.2%	854,801	77.1%	939,522	65.2%	468,719	94.6%	487,489	88.8%
– Provision and distribution of heat	724,091	85.3%	792,381	71.5%	875,399	60.8%	447,523	90.3%	469,333	85.5%
– Pipeline connection fee	43,887	5.2%	48,718	4.4%	51,522	3.5%	12,756	2.6%	13,501	2.5%
– Heat transmission	14,035	1.7%	13,702	1.2%	12,601	0.9%	8,440	1.7%	4,655	0.8%
Construction, maintenance and design services ⁽¹⁾ , of which:	66,418	7.8%	253,572	22.9%	500,637	34.8%	26,673	5.4%	61,405	11.2%
– Engineering construction	57,883	6.8%	208,547	18.8%	310,928	21.6%	18,617	3.8%	44,626	8.1%
– Engineering maintenance	1,989	0.2%	36,942	3.3%	173,063	12.0%	5,928	1.2%	15,424	2.8%
– Design services	5,534	0.7%	7,351	0.7%	16,051	1.1%	2,105	0.4%	1,287	0.2%
– Others ⁽²⁾	1,012	0.1%	732	0.1%	595	0.1%	23	0.0%	68	0.1%
Total	848,431	100.0%	1,108,373	100.0%	1,440,159	100.0%	495,392	100.0%	548,894	100.0%

Notes:

- (1) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and thus revenue generated from these services was eliminated on a consolidated basis. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.
- (2) Others included rental services and sales of goods.

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Heat Supply. During the Track Record Period, revenue generated from heat supply business segment includes (i) fees for provision and distribution of heat, i.e., fees charged for heat supply to end-users; (ii) entrance fees charged for connections to our heat distribution network; and (iii) heat transmission fees charged to other heat service providers. During the Track Record Period, the major source of our revenue was the revenue generated from provision and distribution of heat. Our heat supply business is limited to Changchun, Jilin Province.

The following table sets out a breakdown of revenue generated from provision and distribution of heat by residential and non-residential end-users for the periods indicated.

	2016		For the year ended 31 December 2017		2018		For the three months ended 31 March 2018 (Unaudited)		For the three months ended 31 March 2019	
	RMB'000	% of revenue from provision and distribution of heat	RMB'000	% of revenue from provision and distribution of heat	RMB'000	% of revenue from provision and distribution of heat	RMB'000	% of revenue from provision and distribution of heat	RMB'000	% of revenue from provision and distribution of heat
Revenue generated from provision and distribution of heat										
Residential end-users	477,342	65.9%	525,257	66.3%	582,129	66.5%	295,924	66.1%	312,746	66.6%
Non-residential end-users	246,749	34.1%	267,124	33.7%	293,270	33.5%	151,599	33.9%	156,587	33.4%
Total	724,091	100.0%	792,381	100.0%	875,399	100.0%	447,523	100.0%	469,333	100.0%

Construction, maintenance and design services. During the Track Record Period, revenue generated from construction, maintenance and design services segment includes (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. During the Track Record Period, our construction, maintenance and design services experienced a significant growth. A majority of our construction, maintenance and design services are rendered in Jilin Province.

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The table below sets out details with respect to our construction, maintenance and design services for the periods indicated.

	For the year ended 31 December		2017		2018		For the three months ended 31 March		2019	
	2016						2018 (Unaudited)			
		% of		% of		% of		% of		% of
		revenue from		revenue from		revenue from		revenue from		revenue from
		construction,		construction,		construction,		construction,		construction,
		maintenance		maintenance		maintenance		maintenance		maintenance
		and design		and design		and design		and design		and design
	RMB'000	services	RMB'000	services	RMB'000	services	RMB'000	services	RMB'000	services
Revenue generated from construction, maintenance and design services⁽¹⁾										
Engineering construction	57,883	87.2%	208,547	82.2%	310,928	62.1%	18,617	69.8%	44,626	72.7%
Engineering maintenance	1,989	3.0%	36,942	14.6%	173,063	34.6%	5,928	22.2%	15,424	25.1%
Design services	5,534	8.3%	7,351	2.9%	16,051	3.2%	2,105	7.9%	1,287	2.1%
Others ⁽²⁾	1,012	1.5%	732	0.3%	595	0.1%	23	0.1%	68	0.1%
Total	66,418	100.0%	253,572	100.0%	500,637	100.0%	26,673	100.0%	61,405	100.0%

Notes:

- (1) During the Track Record Period, our electrical and instrument maintenance and repair services were rendered on an intra-group basis and thus revenue generated from these services was eliminated on a consolidated basis. We intend to provide our electrical and instrument maintenance and repair services to third parties after the Listing.
- (2) Others include rental services and sales of goods.

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Cost of sales

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our cost of sales was approximately RMB727.6 million, RMB920.4 million, RMB1,215.5 million and RMB373.1 million, respectively.

The following table sets out the cost of sales by segment for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	% of		% of		% of		% of		% of	
	total cost		total cost		total cost		total cost		total cost	
	RMB'000	of sales	RMB'000	of sales	RMB'000	of sales	RMB'000	of sales	RMB'000	of sales
<i>Cost of sales by segment</i>										
Heat supply	673,791	92.6%	711,323	77.3%	788,576	64.9%	346,720	94.0%	319,793	85.7%
Construction, maintenance and design services	53,766	7.4%	209,042	22.7%	426,909	35.1%	22,265	6.0%	53,279	14.3%
Total	<u>727,557</u>	<u>100.0%</u>	<u>920,365</u>	<u>100.0%</u>	<u>1,215,485</u>	<u>100.0%</u>	<u>368,985</u>	<u>100%</u>	<u>373,072</u>	<u>100%</u>

Heat Supply. Cost of sales for heat supply business primarily consists of heat procurement costs in connection with heat procurement from the local cogeneration plants, cost of purchase of coal for heat produced by coal-fired boilers, maintenance and repair, labor cost which primarily includes wages, salaries and benefits for our employees involved in provision and distribution of heat and utility cost. From 1 January to 30 April 2018, we rented the Boiler Assets from the Shareholder (i.e. Changchun Heating Group) which were derecognized as a distribution to the Shareholder upon completion of the Reorganization. We had properly accounted for the cost related to heat production by the Boiler Assets during such period, which included the relevant cost of coal consumption, maintenance and repair, labor and the rental expenses of the Boiler Assets. For details of the rental expenses of the Boiler Assets, please refer to Note 36 of the Accountants' Report in Appendix I to this prospectus. We incurred no further cost related to the heat production by the Boiler Assets after April 2018 since we had fully ceased heat production by coal-fired boilers and relies solely on heat procured from the local cogeneration plants thereafter.

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The following table sets out a breakdown of cost of sales by component for the heat supply for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>
Cost of sales for heat supply										
Heat procurement cost	181,059	24.9%	198,955	21.6%	312,819	25.7%	129,975	35.2%	228,125	61.1%
Coal	116,748	16.0%	159,951	17.4%	114,832	9.4%	112,988	30.6%	–	0%
Maintenance and repair	118,206	16.2%	62,983	6.8%	61,315	5.0%	1,452	0.4%	1,728	0.5%
Labor	98,961	13.6%	98,673	10.7%	93,894	7.7%	24,570	6.7%	21,452	5.8%
Depreciation	64,238	8.8%	83,550	9.1%	85,413	7.0%	21,361	5.8%	21,865	5.9%
Utility	46,789	6.5%	49,163	5.4%	54,788	4.5%	26,780	7.3%	26,499	7.0%
Input VAT transferred out	28,146	3.9%	37,129	4.0%	40,362	3.3%	15,874	4.3%	14,840	4.0%
Others	19,644	2.7%	20,919	2.3%	25,153	2.3%	13,720	3.7%	5,284	1.4%
Total	673,791	92.6%	711,323	77.3%	788,576	64.9%	346,720	94.0%	319,793	85.7%

Construction, maintenance and design services. Cost of sales for construction, maintenance and design services primarily consists of cost of materials, labor, machinery and other costs.

The following table sets out a breakdown of cost of sales by component for the construction, maintenance and design services for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>
Cost of sales for construction, maintenance and design services										
Materials	20,545	2.8%	56,270	6.1%	230,077	18.9%	7,885	2.1%	23,509	6.3%
Labor	27,708	3.8%	69,709	7.6%	140,839	11.6%	4,375	1.2%	26,929	7.2%
Contracting costs	–	–	41,258	4.5%	–	–	–	–	–	–
Machinery and others	5,513	0.8%	41,805	4.5%	55,993	4.6%	10,005	2.7%	2,841	0.8%
Total	53,766	7.4%	209,042	22.7%	426,909	35.1%	22,265	6.0%	53,279	14.3%

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Gross Profit

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our gross profit was approximately RMB120.9 million, RMB188.0 million, RMB224.7 million and RMB175.8 million, respectively. For the same periods, our gross profit margin was 14.2%, 17.0%, 15.6% and 32.0%, respectively.

The following table sets out our gross profit and gross profit margin by segment for the periods indicated.

	For the year ended 31 December						For the three months ended 31 March			
	2016		2017		2018		2018		2019	
							(Unaudited)			
	<i>Gross</i>		<i>Gross</i>		<i>Gross</i>		<i>Gross</i>		<i>Gross</i>	
	<i>profit</i>		<i>profit</i>		<i>profit</i>		<i>profit</i>		<i>profit</i>	
	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>	<i>RMB'000</i>	<i>margin</i>
Gross Profit										
Heat supply	108,222	13.8%	143,478	16.8%	150,946	16.1%	121,999	26.0%	167,696	34.4%
Construction, maintenance and design services	12,652	19.0%	44,530	17.6%	73,728	14.7%	4,408	16.5%	8,126	13.2%
Total	120,874	14.2%	188,008	17.0%	224,674	15.6%	126,407	25.5%	175,822	32.0%

The gross profit margin for our heat supply was approximately 13.8%, 16.8%, 16.1% and 34.4% for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. The gross profit margin for our heat supply business increased from 13.8% in 2016 to 16.8% in 2017, primarily due to a decrease in the maintenance and repair cost for heat supply, and remained relatively stable from 2017 to 2018, and increased from approximately 26.0% for the three months ended 31 March 2018 to approximately 34.4% for the three months ended 31 March 2019, mainly due to the decrease in cost of sales of heat supply associated with coal-fired boilers, such as consumption of coal and labor costs for operation of coal-fired boilers as our Group has fully ceased the heat production by coal-fired boilers since April 2018. Due to seasonality and the heat supply period, the gross profit margin for January to March is generally higher than that annually. Revenue generated from heat supply is recognized over the heat supply period (which is usually consistent with heat supply period that lasts from October each year to the following April) by reference to the progress towards complete satisfaction of the performance obligation. As a result, our revenue is higher in the first and fourth quarter during each financial year. In addition, we incur our cost of sales for heat supply during different periods of the year (that is, heat and coal procurement costs are typically incurred over the heat supply period, while maintenance and repair costs are incurred outside heat supply period during which maintenance and repair work is carried out

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and the rest of the cost components such as staff cost and depreciation spread throughout the year). For details about seasonality of our financial conditions and business operation, please refer to the sections headed “Financial Information – Key Factors Affecting our Results of Operations – Seasonality” and “Business – Heat Supply – Seasonality” in this prospectus.

The gross profit margin for our construction, maintenance and design services was approximately 19.0%, 17.6%, 14.7% and 13.2% for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. The gross profit margin for our construction, maintenance and design services decreased from 2016 to 2017, primarily due to lower profit margin recorded in certain engineering construction projects. The gross profit margin for our construction, maintenance and design services decreased from 2017 to 2018, primarily due to lower gross profit margin recorded in certain of the projects we operated in connection with the Three Supplies and Property Management Operations in 2018. The gross profit margin of our construction, maintenance and design services decreased from approximately 16.5% for the three months ended 31 March 2018 to approximately 13.2% for the three months ended 31 March 2019, mainly due to lower gross profit margin recorded in certain engineering construction projects in relation to municipal construction.

Other income and gains

Our other income and gains primarily consist of government grants, gain on disposal of items of property, plant and equipment, interest income, gains on financial assets at fair value through profit or loss and others. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our other income and gains were approximately RMB46.8 million, RMB52.1 million, RMB21.0 million and RMB2.9 million, respectively.

The following table sets out a breakdown of our other income and gains for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Other income and gains					
Government grants	14,412	33,007	11,641	311	444
Gain on disposal of items of property, plant and equipment	21,052	–	–	34	–
Bank interest income	5,995	6,980	5,412	198	2,407
Interest from time deposits with an initial term of over three months	3,456	7,602	–	–	–

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	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Gains from financial assets at fair value through profit or loss	1,001	1,882	2,307	1,671	–
Interest income from loans to related parties	–	1,806	–	–	–
Others	868	871	1,595	50	77
Total	46,784	52,148	20,955	2,264	2,928

During the Track Record Period, we recognized other income and gains from certain grants from municipal governments in the amount of approximately RMB14.4 million, RMB33.0 million, RMB11.6 million and RMB0.4 million for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, respectively. For 2016 and 2018, government grants were primarily relating to our taking over heat service areas released from those originally covered by phased-out boilers which were of smaller scale or with lower capacity. Such government grants were calculated as to RMB60.0 per sq.m. For 2017, we received a non-recurring subsidy for coal purchase as well as a one-off government grant of approximately RMB5.8 million in relation to our efforts in upgrading aged primary distribution pipelines. For the three months ended 31 March 2019, the government grants recorded were the amortization of the government grants we received for taking over heat service areas released from those originally covered by phased-out boilers which were of smaller scale or with lower capacity.

Bank interest income was generated by balances in our bank deposits. Interest income from loans to related parties refers to the interest generated in 2017 from the loans to Jilin Xinda. As advised by our PRC Legal Advisers, (i) the provision of loans to Jilin Xinda did not comply with the General Lending Provisions* (《貸款通則》). However, based on the Supreme People's Court's Rulings on Private Lending Cases* (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) and a confirmation dated 21 June 2019 obtained from the People's Bank of China (Changchun Branch), the interest income generated will be recognized by the People's Court; (ii) the risk of penalty or fine for violation of the General Lending Provisions is low; and (iii) up until the date of the confirmation from the People's Bank of China (Changchun Branch), Changchun Heating Group had not received any complaints, reports or penalties from the People's Bank of China. We had adopted enhanced internal control measures suggested by our internal control consultant, including requiring specific approvals from certain management staff and considering the General Lending Provisions and relevant laws before granting a loan, etc., to ensure compliance with the General Lending Provisions.

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Interest income from time deposits with an initial term of over three months was generated from common time deposits with such initial term deposits. Such loans to related parties and time deposits with an initial term of over three months were part of the Other Retained Assets and Liabilities and thus not included in the financial information for the year ended 31 December 2018.

Gains on disposal of items of property, plant and equipment in 2016 of approximately RMB21.1 million were primarily generated from a compensation for land relocation and gains on exchanges of assets. In April 2016, we received a compensation from the Changchun government for compulsorily acquiring our properties with a total area of 33,045 sq.m. pursuant to municipal planning which resulted in a gain of RMB14.3 million. In December 2016, we exchanged assets with an independent heat service provider, which resulted in a gain of RMB5.8 million. We used to share the same office building (i.e. our headquarters) with that heat service provider. To ensure that both entities operate independently and to avoid leakage of confidential information, we entered into an asset exchange agreement (as supplemented) pursuant to which we acquired our headquarters and that heat service provider relocated in exchange for certain assets, including heat exchange stations and primary distribution pipelines, and for setting off certain trade receivables due to us. We do not rely on the disposed assets under the asset exchange agreement (as supplemented) for our current business operations. They were relatively insignificant to our Group as they amounted to approximately RMB36.5 million, of which approximately RMB27.2 million were trade receivables due from that heat service provider.

Gains on financial assets at fair value through profit or loss during the Track Record Period were primarily generated from our bank wealth management products.

Others represent overdue payment charges received from heat supply end-users who defaulted.

Administrative expenses

Administrative expenses primarily consist of (i) staff costs for staff holding non-production positions; (ii) depreciation and amortization; (iii) other taxes; (iv) office expense; (v) professional fee; and (vi) others. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our administrative expenses were approximately RMB66.2 million, RMB92.4 million, RMB72.8 million and RMB20.8 million, respectively.

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The following table sets out a breakdown of our administrative expenses for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Staff costs	46,407	52,916	45,444	10,649	15,523
Depreciation and amortization	5,494	13,405	9,415	2,009	2,445
Other taxes	4,302	8,401	2,794	692	717
Office expense	5,546	10,232	7,346	828	735
Professional fee	1,463	3,329	2,591	2,064	368
Others	2,981	4,071	5,237	517	993
Total	66,193	92,354	72,827	16,759	20,781

Staff costs were incurred due to the employee salary, wages and benefits for our staff holding non-production positions during the Track Record Period.

Depreciation and amortization was primarily related to buildings, vehicles, office equipment and software.

Other taxes refer to taxes resulting from operation of our business other than income tax and business tax, including among others, real estate tax, urban land use tax and stamp duties.

Office expense is mainly related to office consumables and utilities, traveling and entertainment, conferences and vehicle operation.

Professional fee incurred during the Track Record Period was primarily related to our annual and routine audit, evaluation in connection with shareholding reform and other professional consultation services.

Others mainly include expenses incurred due to heating, gas supply, safety costs.

Other expenses

Other expenses primarily consist of (i) loss from disposal of asset in 2017 in connection with disposals of certain obsolete pipelines and machinery; (ii) donation in connection with a poverty alleviation project we participated in; (iii) administrative fines for excessive pollutant emission and overdue payments made by Changchun Runfeng for real estate tax and urban land use tax, (iv) foreign exchange loss in connection with our long-term Euro-denominated loan; and (v) others which primarily include compensation due to pipeline burst and traveling and

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accommodation expenses in connection with the poverty alleviation project we participated in. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our other expenses were approximately RMB2.4 million, RMB17.4 million, RMB0.4 million and RMB22,000, respectively.

The following table sets out our other expenses for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Other Expenses					
Loss from disposal of asset	–	16,304	12	–	–
Donation	1,153	2	–	–	–
Administrative fines	274	662	–	–	–
Overdue payments	–	–	345	–	–
Foreign exchange loss	843	260	–	–	–
Others	136	211	–	–	22
	<u>2,406</u>	<u>17,439</u>	<u>357</u>	<u>–</u>	<u>22</u>
Total	<u>2,406</u>	<u>17,439</u>	<u>357</u>	<u>–</u>	<u>22</u>

Administrative fines were mainly for fines for our then coal-fired boilers emitting air pollutant exceeding the statutory limit. All of the fines had been fully paid. We had ceased heat production by coal-fired boilers since April 2018. For reasons resulting in this change, please refer to the section headed “Business – Our Heat Production – Heat Production Facilities” in this prospectus. Save for the aforementioned environmental administrative fines, our PRC Legal Advisers are not aware of any other material breaches of the environmental law or other material penalties from the relevant environmental authorities against our Group during the Track Record Period and up until the Latest Practicable Date.

Overdue payments were mainly caused by the overdue tax payments of Changchun Runfeng for mainly real estate tax and urban land use tax in 2018. Pursuant to a taxation decision in 2018, it was ruled that Changchun Runfeng was required to pay tax of approximately RMB0.8 million and an overdue tax payment of approximately RMB0.3 million. This was mainly due to the inadvertence on the part of the staff for misinterpreting the taxation requirements of certain investment properties. The outstanding tax and overdue tax payments had been paid by our Group and we have not received any penalty from the relevant tax authorities. Our Group had adopted enhanced internal control measures suggested by our internal control consultant, including regularly reviewing the systems of financial reporting, tax computations and tax filings, and strengthening the two-tier reporting mechanism for tax computations and tax filings, etc., to ensure that tax payments are made on time. Our Group had also hired a tax consulting firm to conduct trainings for our relevant staff on tax laws and regulations.

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Based on the results of enquiry obtained from the relevant tax authorities, which are the competent authorities as confirmed by our PRC Legal Advisers, our Group did not have tax arrears or tax default during the Track Record Period nor were we exposed to taxation risks of being identified by the relevant tax authorities of having tax arrears or tax default. Our PRC Legal Advisers are of the view that the risk of any further penalty or administrative fine in connection with the above overdue tax payments is low.

Finance costs

Our finance costs primarily consist of interest on interest-bearing bank and other borrowings, and interest on lease liabilities in relation to certain machinery we leased for our engineering construction services. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our finance costs were approximately RMB5.4 million, RMB5.3 million, RMB11.3 million and RMB2.4 million, respectively.

The following table sets out our finance costs for the periods indicated.

	Year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Finance costs					
Interest on interest-bearing bank and other borrowings	5,440	4,764	10,793	2,430	2,222
Interest expenses on lease liabilities	81	61	93	–	42
Others	946	962	458	114	101
	<u>6,467</u>	<u>5,787</u>	<u>11,344</u>	<u>2,544</u>	<u>2,365</u>
Total interest expense	6,467	5,787	11,344	2,544	2,365
Less: Interest capitalized	(1,069)	(474)	–	–	–
	<u>(1,069)</u>	<u>(474)</u>	<u>–</u>	<u>–</u>	<u>–</u>
<i>Finance costs, net</i>	<u>5,398</u>	<u>5,313</u>	<u>11,344</u>	<u>2,544</u>	<u>2,365</u>

Share of profits and losses of a joint venture

Share of profits and losses of a joint venture is in connection with our investment in FAW Sihuan, a joint venture in which we hold 50%. Our investment in FAW Sihuan was transferred from our Controlling Shareholder to our Company on 1 January 2018 during the Reorganization. For more information regarding FAW Sihuan, please refer to the section

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headed “Business – Investment in FAW Sihuan” in this prospectus. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our share of profits and losses of FAW Sihuan was nil, nil, approximately RMB1.5 million and RMB2.7 million, respectively.

Profit before tax

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our profit before tax was approximately RMB99.6 million, RMB115.2 million, RMB139.3 million and RMB170.8 million, respectively.

Income tax expenses

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our income tax expenses were approximately RMB26.8 million, RMB29.4 million, RMB36.6 million and RMB42.2 million, respectively. The reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which our Company and majorities of subsidiaries are domiciled to the tax expense at the effective tax rate is disclosed in Note 12 to the Accountants’ Report as set out in Appendix I to this prospectus.

Our Group’s major components of income tax expense are as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
				(Unaudited)	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Current income tax	26,566	31,279	45,555	28,987	39,370
Deferred tax	238	(1,892)	(8,949)	(488)	2,852
Total tax charge for the year	<u>26,804</u>	<u>29,387</u>	<u>36,606</u>	<u>28,499</u>	<u>42,222</u>

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our effective tax rate was 26.9%, 25.5%, 26.3% and 24.7%, respectively. Our PRC subsidiaries are subject to income tax at 25% on their respective taxable incomes as calculated in accordance with the EIT Law and its relevant regulations except for Changchun Runfeng prior to 2017. Prior to 2017, Changchun Tax Bureau had issued several notices allowing Changchun Runfeng, as a construction company, to adopt the deemed profit method for calculating income tax based on 8% of its taxable income. In light of the changes to the value-added tax law in the PRC, starting from 2017, Changchun Runfeng has been reclassified as a general taxpayer, and has to pay EIT at a rate of 25% on its taxable income in accordance with the requirement of Changchun Tax Bureau.

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Our Directors confirm that we have made all the required tax filings under the relevant PRC tax laws and regulations and have paid all outstanding tax liabilities, and that we are not subject to any dispute or potential dispute with the tax authorities up to the Latest Practicable Date.

Profit for the year

For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our profit for the year was RMB72.8 million, RMB85.8 million, RMB102.7 million and RMB128.6 million, respectively. For the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, our net profit margin was approximately 8.6%, 7.7%, 7.1% and 23.4%, respectively.

RESULTS OF OPERATIONS

Three months ended 31 March 2019 compared with three months ended 31 March 2018

Revenue

Our consolidated revenue increased by approximately RMB53.5 million, or 10.8%, from approximately RMB495.4 million for the three months ended 31 March 2018 to RMB548.9 million for the three months ended 31 March 2019, primarily due to a significant increase by approximately RMB34.7 million in revenue generated from our construction, maintenance and design services business and an increase by approximately RMB18.8 million in revenue generated from our heat supply business.

Heat Supply. Revenue generated from our heat supply business increased by approximately RMB18.8 million, or 4.0%, from approximately RMB468.7 million for the three months ended 31 March 2018 to approximately RMB487.5 million for the three months ended 31 March 2019, primarily due to the organic growth of our heat service area by approximately 1.9 million sq.m. For reasons of the increase in our heat service area, please refer to the section headed “Business – Heat Supply – Heat Distribution Network – Heat Service Area” in this prospectus. As a result, pipeline connection fee also increased by 5.8% accordingly. The increase in the revenue generated from provision and distribution of heat was partially offset by the decrease in the heat transmission fee of approximately RMB3.8 million as one of the other heat suppliers to whom we used to transfer heat in the first quarter of 2018 ceased to purchase heat from the cogeneration plants through us since October 2018.

Construction, maintenance and design services. Revenue generated from our construction, maintenance and design services increased by approximately RMB34.7 million, or 130.2%, from approximately RMB26.7 million for the three months ended 31 March 2018 to approximately RMB61.4 million for the three months ended 31 March 2019, primarily due to (i) a significant increase by approximately RMB26.0 million, or 139.7%, from approximately RMB18.6 million for the three months ended 31 March 2018 to approximately RMB44.6 million for the three months ended 31 March 2019 in our engineering construction

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services rendered which was primarily due to the higher revenue recorded from certain construction engineering projects in connection with the Three Supplies and Property Management Operations and several municipal construction projects; and (ii) an increase by approximately RMB9.5 million, or 160.2%, from approximately RMB5.9 million for the three months ended 31 March 2018 to approximately RMB15.4 million for the three months ended 31 March 2019 in our engineering maintenance services rendered which was primarily in response to the demand from maintenance projects in connection with municipal construction. The increase in the revenue recorded from our construction, maintenance and design services was partially offset by a decrease by approximately RMB0.8 million, or 38.9%, from approximately RMB2.1 million for the three months ended 31 March 2018 to approximately RMB1.3 million for the three months ended 31 March 2019 in our design service resulting from less design services demand in the first quarter of 2019 compared to the same period in 2018.

Cost of sales

Our cost of sales increased by approximately RMB4.1 million, or 1.1%, from approximately RMB369.0 million for the three months ended 31 March 2018 to approximately RMB373.1 million for the three months ended 31 March 2019.

Heat Supply. Cost of sales for heat supply business decreased by approximately RMB26.9 million, or 7.8%, from approximately RMB346.7 million for the three months ended 31 March 2018 to approximately RMB319.8 million for the three months ended 31 March 2019, primarily due to the decrease in cost of sales of heat supply associated with coal-fired boilers since we have fully ceased the heat production by coal-fired boilers since April 2018.

Construction, maintenance and design services. The cost of sales for this business increased by approximately RMB31.0 million, or 139.3%, from approximately RMB22.3 million for the three months ended 31 March 2018 to approximately RMB53.3 million for the three months ended 31 March 2019, primarily due to the proportionate increase of the cost of sales with the growth of our revenue from our construction, maintenance and design services.

Gross profit

Our total gross profit increased by approximately RMB49.4 million, or 39.1%, from RMB126.4 million for the three months ended 31 March 2018 to approximately RMB175.8 million for the three months ended 31 March 2019. Our gross profit margin increased from 25.5% for the three months ended 31 March 2018 to 32.0% for the three months ended 31 March 2019.

Heat Supply. Gross profit for heat supply business increased by approximately RMB45.7 million, or 37.5%, from approximately RMB122.0 million for the three months ended 31 March 2018 to approximately RMB167.7 million for the three months ended 31 March 2019. Our gross profit margin for heat supply business increased from 26.0% for the three months ended 31 March 2018 to 34.4% for the three months ended 31 March 2019, primarily due to

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the decrease in cost of sales of heat supply associated with coal-fired boilers such as consumption of coal, labor costs for operation of coal-fired boilers, repair costs for maintaining coal-fired boilers and etc., since we have fully ceased the heat production by coal-fired boilers since April 2018.

Construction, maintenance and design services. Gross profit for our construction, maintenance and design services increased by approximately RMB3.7 million, or 84.3%, from approximately RMB4.4 million for the three months ended 31 March 2018 to approximately RMB8.1 million for the three months ended 31 March 2019. However, our gross profit margin for construction, maintenance and design services decreased from 16.5% for the three months ended 31 March 2018 to 13.2% for the three months ended 31 March 2019, primarily due to lower gross profit margin recorded in certain engineering construction projects in relation to municipal construction.

Other income and gains

Other income and gains increased by approximately RMB0.6 million, or 29.3%, from approximately RMB2.3 million for the three months ended 31 March 2018 to approximately RMB2.9 million for the three months ended 31 March 2019, primarily due to an increase of bank interest income we recognized from approximately RMB0.2 million for the three months ended 31 March 2018 to approximately RMB2.4 million for the three months ended 31 March 2019 resulting from a structured deposit agreement with a commercial bank at a higher deposit interest rate entered into in September 2018 for a term of one year. Such increase was partially offset by a decrease in gains from financial assets at fair value through profit or loss by approximately RMB1.7 million as our Group did not invest in bank wealth management products in the three months ended 31 March 2019.

Administrative expenses

Administrative expenses increased by approximately RMB4.0 million, or 24.0%, from approximately RMB16.8 million for the three months ended 31 March 2018 to RMB20.8 million for the three months ended 31 March 2019, primarily due to (i) an increase in staff costs by approximately RMB4.9 million as the number of our administrative staff increased and there had also been an increase in the total salary of our administrative staff; and (ii) an increase in depreciation and amortization by approximately RMB0.4 million. The increase in administrative expenses was partly offset by a decrease of approximately RMB1.7 million in the professional fee in relation to our annual and routine audit evaluation in connection with shareholding reform and other professional consultation services.

Other expenses

Other expenses were nil for the three months ended 31 March 2018 and were recorded as RMB22,000 for the three months ended 31 March 2019.

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Finance costs

Finance costs were recorded as approximately RMB2.5 million for the three months ended 31 March 2018 and approximately RMB2.4 million for the three months ended 31 March 2019, which remained relatively stable.

Share of profit and loss of a joint venture

We recorded a share of profit of FAW Sihuan of approximately RMB2.7 million for the three months ended 31 March 2019, which increased by approximately RMB0.6 million, or 28.5% compared to the RMB2.1 million share of profits recorded for the three months ended 31 March 2018, primarily due to an increase of FAW Sihuan's net profits for the same period.

Profit before tax

As a result of the factors described above, profit before tax increased by approximately RMB56.3 million, or 49.1%, from approximately RMB114.5 million for the three months ended 31 March 2018 to approximately RMB170.8 million for the three months ended 31 March 2019.

Income tax expense

Our income tax expense increased by approximately RMB13.7 million, or 48.2%, from approximately RMB28.5 million for the three months ended 31 March 2018 to RMB42.2 million for the three months ended 31 March 2019, primarily due to the increase in profit before tax for the three months ended 31 March 2019 by approximately RMB56.3 million compared to the three months ended 31 March 2018.

Profit for the year

As a result of the foregoing, our profit increased by approximately RMB42.5 million, or 49.5%, from approximately RMB86.0 million for the three months ended 31 March 2018 to approximately RMB128.6 million for the three months ended 31 March 2019. Our net profit margin increased from 17.4% for the three months ended 31 March 2018 to 23.4% for the three months ended 31 March 2019.

Year ended 31 December 2017 compared with year ended 31 December 2018

Revenue

Our consolidated revenue increased by RMB331.8 million, or 29.9%, from RMB1,108.4 million for the year ended 31 December 2017 to RMB1,440.2 million for the year ended 31 December 2018, primarily due to (i) a significant increase by RMB136.2 million in revenue

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generated from engineering maintenance services rendered; (ii) an increase by RMB102.4 million in revenue generated from engineering construction services rendered; and (iii) an increase by RMB84.7 million in revenue generated from heat supply business.

Heat Supply. Revenue generated from heat supply business increased by approximately RMB84.7 million, or 9.9%, from approximately RMB854.8 million for the year ended 31 December 2017 to approximately RMB939.5 million, primarily due to an increase in revenue from provision and distribution of heat resulting from an organic growth of our heat service area. Our heat service area increased by 2.7 million sq.m., or 7.5%, from 35.8 million sq.m. as at 31 December 2017 to 38.5 million sq.m. as at 31 December 2018. For reasons of the increase in our heat service area, please refer to the section headed “Business – Heat Supply – Heat Distribution Network – Heat Service Area” in this prospectus. Pipeline connection fee also increased accordingly.

Construction, maintenance and design services. Revenue generated from construction, maintenance and design services increased significantly by approximately RMB247.0 million, or 97.4%, from the year ended 31 December 2017 to the year ended 31 December 2018, primarily due to (i) a significant increase by approximately RMB136.2 million, or 368.5%, from approximately RMB36.9 million for the year ended 31 December 2017 to approximately RMB173.1 million for the year ended 31 December 2018 in engineering maintenance services rendered which was primarily in response to the demand from maintenance projects in connection with the Three Supplies and Property Management Operations; and (ii) a significant increase by approximately RMB102.4 million, or 49.1%, from approximately RMB208.5 million for the year ended 31 December 2017 to approximately RMB310.9 million for the year ended 31 December 2018 in engineering construction services rendered in connection with the Three Supplies and Property Management Operations and a municipal construction project bearing a higher contract value in 2018; and (iii) revenue generated from design services increased by approximately RMB8.7 million, or 118.4%, from approximately RMB7.4 million for the year ended 31 December 2017 to approximately RMB16.1 million for the year ended 31 December 2018, was primarily in response to the design service demand from projects in connection with the Three Supplies and Property Management Operations.

Cost of sales

Our cost of sales increased by RMB295.1 million, or 32.1%, from RMB920.4 million for the year ended 31 December 2017 to RMB1,215.5 million for the year ended 31 December 2018.

Heat Supply. Cost of sales for heat supply business increased by approximately RMB77.3 million, or 10.9%, from approximately RMB711.3 million for the year ended 31 December 2017 to approximately RMB788.6 million for the year ended 31 December 2018, which was in line with our revenue growth in heat supply business. In addition, the increase in the cost of sales in 2018 was also attributed to the increase in the price of coal which we used before

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we ceased our heat production by coal-fired boilers in April 2018 and the generally lower temperature in the first quarter of 2018 as compared to the same period last year which in turn resulted in higher consumption of coal and heat procured from cogeneration plants.

Construction, maintenance and design services. The increase in cost of sales for construction, maintenance and design services was generally in line with the significant growth in revenue of this segment from 2017 to 2018. Such cost of sales increased by approximately RMB217.9 million, or 104.2%, from approximately RMB209.0 million for the year ended 31 December 2017 to approximately RMB426.9 million for the year ended 31 December 2018, primarily due to (i) an increase in the cost of materials by 308.9% from 2017 to 2018 resulting from the materials purchased for a municipal construction project as well as the projects in connection with the Three Supplies and Property Management Operations; and (ii) an increase in cost of labor in response to the increase in volume of services we rendered.

Gross profit

Our total gross profit increased by RMB36.7 million, or 19.5%, from RMB188.0 million for the year ended 31 December 2017 to RMB224.7 million for the year ended 31 December 2018. However, our gross profit margin decreased from 17.0% for the year ended 31 December 2017 to 15.6% for the year ended 31 December 2018.

Heat Supply. Gross profit for heat supply business increased by approximately RMB7.4 million, or 5.2%, from approximately RMB143.5 million for the year ended 31 December 2017 to approximately RMB150.9 million for the year ended 31 December 2018. Our gross profit margin for heat supply business was 16.1% for the year ended 31 December 2018, which was relatively stable compared with 16.8% for the year ended 31 December 2017. Although the average heat procurement price increased by 6.9% in 2018 from RMB24.7/GJ to RMB26.4/GJ, the overall gross profit margin remained stable mainly attributable to the decrease in our cost of sales of heat supply associated with coal-fired boilers, such as consumption of coal, labor costs for operation of coal-fired boilers and repair costs for maintaining coal-fired boilers etc., as we have fully ceased the heat production by coal-fired boilers since April 2018.

Construction, maintenance and design services. Gross profit for construction, maintenance and design services increased by approximately RMB29.2 million, or 65.6%, from approximately RMB44.5 million for the year ended 31 December 2017 to approximately RMB73.7 million for the year ended 31 December 2018. However, our gross profit margin for construction, maintenance and design services decreased from 17.6% for the year ended 31 December 2017 to 14.7% for the year ended 31 December 2018, primarily due to (i) certain major raw materials were provided by our customers for several service contracts in connection with the Three Supplies and Property Management Operations, which allowed for less room for our profit margin; and (ii) we entered a new area to provide our engineering maintenance services and therefore we were more conservative in terms of cost estimate.

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Other income and gains

Other income and gains decreased by RMB31.1 million, or 59.8%, from RMB52.1 million for the year ended 31 December 2017 to RMB21.0 million for the year ended 31 December 2018, primarily due to (i) a decrease in government grants by approximately RMB21.4 million due to discontinuation of government grants in relation to coal purchase and upgrading aged primary distribution pipelines; and (ii) a decrease of RMB9.4 million in interest income from loans to Jilin Xinda and time deposits with an initial term of over three months, which were part of the Other Retained Assets and Liabilities and thus not included in the financial information for the year ended 31 December 2018.

Administrative expenses

Administrative expenses decreased by RMB19.5 million, or 21.1%, from RMB92.4 million for the year ended 31 December 2017 to RMB72.9 million for the year ended 31 December 2018, primarily due to (i) the decrease in staff costs by approximately RMB7.5 million; (ii) the decrease in other taxes by approximately RMB5.6 million; and (iii) the decrease in depreciation and amortization by approximately RMB4.0 million. These relevant staff, other taxes and assets causing the depreciation and amortisation were part of the Other Retained Assets and Liabilities and thus not included in the financial information for the year ended 31 December 2018.

Other expenses

Other expenses decreased by RMB17.0 million, or 98.0%, from RMB17.4 million for the year ended 31 December 2017 to RMB0.4 million for the year ended 31 December 2018, primarily due to (i) the decrease in loss from disposal of asset by approximately RMB16.3 million as minimal disposal of asset incurred in 2018; and (ii) no donation, administrative fines, foreign exchange loss were recorded in 2018.

Finance costs

Finance costs increased by RMB6.0 million, or 113.5%, from RMB5.3 million for the year ended 31 December 2017 to RMB11.3 million for the year ended 31 December 2018, primarily due to interest expenses resulting from higher average interest rate and a higher level of average balance of interest-bearing other borrowings in 2018.

Share of profit and loss of a joint venture

We recorded a share of profit in FAW Sihuan of approximately RMB1.5 million as the investment in FAW Sihuan was transferred from our Controlling Shareholder to our Company effective on 1 January 2018 during the Reorganization.

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Profit before tax

As a result of the factors described above, profit before tax increased by RMB24.1 million, or 20.9%, from RMB115.2 million for the year ended 31 December 2017 to RMB139.3 million for the year ended 31 December 2018.

Income tax expense

Our income tax expense increased by RMB7.2 million, or 24.6%, from RMB29.4 million for the year ended 31 December 2017 to RMB36.6 million for the year ended 31 December 2018 primarily due to the increase in profit before tax from 2017 to 2018 by approximately RMB24.1 million.

Profit for the year

As a result of the foregoing, our profit increased by RMB16.9 million, or 19.7%, from RMB85.8 million for the year ended 31 December 2017 to RMB102.7 million for the year ended 31 December 2018. However, our net profit margin slightly decreased from 7.7% for the year ended 31 December 2017 to 7.1% for the year ended 31 December 2018.

Year ended 31 December 2016 compared with year ended 31 December 2017

Revenue

Our consolidated revenue increased by RMB260.0 million, or 30.6%, from RMB848.4 million for the year ended 31 December 2016 to RMB1,108.4 million for the year ended 31 December 2017, primarily due to (i) a significant increase by approximately RMB150.7 million, or 260.3%, in engineering construction services rendered; and (ii) an increase by approximately RMB72.8 million or 9.3% in revenue generated from heat supply business.

Heat Supply. Revenue generated from heat supply business increased by approximately RMB72.8 million, or 9.3%, from approximately RMB782.0 million for the year ended 31 December 2016 to approximately RMB854.8 million, primarily due to an increase in revenue from provision and distribution of heat resulting from an organic growth of our heat service area. Our heat service area increased by 2.6 million sq.m., or 7.8%, from 33.2 million sq.m. as at 31 December 2016 to 35.8 million sq.m. as at 31 December 2017. For reasons of the increase in our heat service area, please refer to the section headed “Business – Heat Supply – Heat Distribution Network – Heat Service Area” in this prospectus. Pipeline connection fee also increased accordingly.

Construction, maintenance and design services. Revenue generated from construction, maintenance and design services increased significantly by 281.8% from the year ended 31 December 2016 to the year ended 31 December 2017, primarily due to a significant increase by approximately RMB150.7 million, or 260.3%, in engineering construction services which included (i) a large size engineering construction project in connection with the Three Supplies

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and Property Management Operations from which we recognized revenue in a large amount; and (ii) a heat supply realignment construction project which generated revenue in a large amount; and (iii) a heat exchange construction and pipeline construction project which generated revenue in a moderate amount. Revenue generated from engineering maintenance services increased significantly by approximately RMB34.9 million, or 1,757.3% from approximately RMB2.0 million for the year ended 31 December 2016 to approximately RMB36.9 million for the year ended 31 December 2017, primarily due to an increase in engineering maintenance projects we were engaged in 2017 following our commencement of engineering maintenance operation in the second half of 2016.

Cost of sales

Our cost of sales increased by approximately RMB192.8 million, or 26.5%, from approximately RMB727.6 million for the year ended 31 December 2016 to approximately RMB920.4 million for the year ended 31 December 2017.

Heat Supply. Cost of sales for heat supply business increased by approximately RMB37.5 million, or 5.6%, from approximately RMB673.8 million for the year ended 31 December 2016 to approximately RMB711.3 million for the year ended 31 December 2017, primarily due to an increase in heat procurement cost and cost of coal, partly offset by a decrease in cost of maintenance and repair.

Construction, maintenance and design services. The increase in cost of sales for construction, maintenance and design services was generally in line with the significant growth in revenue of this segment from 2016 to 2017. Such cost of sales increased by approximately RMB155.2 million, or 288.8%, from approximately RMB53.8 million for the year ended 31 December 2016 to approximately RMB209.0 million for the year ended 31 December 2017, primarily due to (i) an increase in the cost of materials by 173.9% from 2016 to 2017; and (ii) an increase in cost of labor by 151.6% from 2016 to 2017, which were in response to the increase in volume of services we rendered.

Gross profit

Our total gross profit increased by approximately RMB67.1 million, or 55.5%, from RMB120.9 million for the year ended 31 December 2016 to RMB188.0 million for the year ended 31 December 2017. Gross profit margin increased from 14.2% for the year ended 31 December 2016 to 17.0% for the year ended 31 December 2017.

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Heat Supply. Gross profit for heat supply business increased by approximately RMB35.3 million, or 32.6%, from approximately RMB108.2 million for the year ended 31 December 2016 to approximately RMB143.5 million for the year ended 31 December 2017. Gross profit margin for heat supply increased from 13.8% to 16.8%, primarily due to a decrease in cost of maintenance and repair following our replacement of certain aged primary distribution pipelines and other major maintenance and repair work completed in 2016, which improved our operational efficiency.

Construction, maintenance and design services. Gross profit for construction, maintenance and design services increased by approximately RMB31.8 million, or 252.0%, from approximately RMB12.7 million for the year ended 31 December 2016 to approximately RMB44.5 million for the year ended 31 December 2017. However, the gross profit margin for construction, maintenance and design services slightly decreased from 19.0% in 2016 to 17.6% in 2017, primarily due to an overall lower gross profit margin recorded in our engineering maintenance services as we were in the process of developing our operation, which was partly offset by a higher gross profit margin recorded in certain construction contracts in 2017.

Other income and gains

Other income and gains increased by approximately RMB5.3 million, or 11.5%, from RMB46.8 million for the year ended 31 December 2016 to RMB52.1 million for the year ended 31 December 2017, primarily due to (i) an increase in government grants by RMB18.6 million which was primarily attributable to the one-off government grant in 2017 in relation to a non-recurring subsidy for coal purchase as well as our efforts in upgrading aged heat distribution pipelines; and (ii) an increase in interest income from loans to Jilin Xinda. The increase in other income and gains was partly offset by an absence of gain on disposal of items of property, plant and equipment in 2017.

Administrative expenses

Administrative expenses increased by approximately RMB26.2 million, or 39.5%, from approximately RMB66.2 million for the year ended 31 December 2016 to RMB92.4 million for the year ended 31 December 2017 primarily due to (i) an increase in depreciation and amortization by approximately RMB7.9 million in connection with our office building renovation work completed in 2016; (ii) an increase in staff costs by approximately RMB6.5 million as a number of our staff holding production positions had been reassigned to non-production, administrative and management positions, and there had also been an increase in the salary of our staff holding administrative and management positions; and (iii) an increase in office expense by approximately RMB4.7 million in connection with the promotion of our business and brand image, and improvement of our office environment which led to increase in utility expenses and purchase of additional office supplies.

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Other expenses

Other expenses increased by approximately RMB15.0 million, or 625.0%, from approximately RMB2.4 million for the year ended 31 December 2016 to RMB17.4 million for the year ended 31 December 2017 primarily due to a loss from disposal of asset in 2017 of approximately RMB16.3 million in connection with disposals of certain obsolete pipelines and machinery, partly offset by a decrease in donation in 2017 by approximately RMB1.2 million.

Finance costs

Finance costs slightly decreased by approximately RMB0.1 million, or 1.6%, from approximately RMB5.4 million for the year ended 31 December 2016 to approximately RMB5.3 million for the year ended 31 December 2017.

Share of profit and loss of a joint venture

We did not record share of profit and loss from joint venture in both 2016 and 2017.

Profit before tax

As a result of the factors described above, profit before tax increased by approximately RMB15.6 million, or 15.7%, from approximately RMB99.6 million for the year ended 31 December 2016 to approximately RMB115.2 million for the year ended 31 December 2017.

Income tax expense

Our income tax expense slightly increased by approximately RMB2.6 million, or 9.6%, from approximately RMB26.8 million for the year ended 31 December 2016 to approximately RMB29.4 million for the year ended 31 December 2017, primarily due to the increase in taxable profit from 2016 to 2017 by approximately RMB15.6 million.

Profit for the year

As a result of the foregoing, our profit for the year increased by approximately RMB13.0 million, or 17.9%, from approximately RMB72.8 million for the year ended 31 December 2016 to RMB85.8 million for the year ended 31 December 2017. Our net profit margin decreased from 8.6% for 2016 to 7.7% for 2017.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations primarily through cash flows from operations and bank and other borrowings. We require cash for our working capital demand, such as the provision of our services and capital expenditures related to the expansion of heat distribution network and the purchases of property, plant and equipment. Our primary use of funds has been working capital, capital expenditures, and repayment of bank and other

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borrowings. Any significant decrease in demand for, or pricing of, our services or a significant decrease in the availability of bank loans and other borrowings may adversely impact our liquidity. We do not foresee any deterioration of the credit markets or tightened monetary policies in the PRC, which may result in an adverse impact on the banking facilities available to us. In the future, we expect that our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to us and the proceeds from the Global Offering.

Cash Flows

Our cash and cash equivalents were RMB746.8 million, RMB481.7 million, RMB358.9 million and RMB197.7 million as at 31 December 2016, 2017 and 2018 and 31 March 2019, respectively.

The following table sets out a summary of our cash flows for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Operating profit before working capital changes	138,854	225,985	260,262	133,985	180,068
Net cash flows from/(used in) operating activities	305,940	31,899	(101,721)	7,758	(113,468)
Net cash flows used in investing activities	(431,183)	(261,120)	(52,675)	23,192	(36,816)
Net cash flows (used in)/from financing activities	(44,340)	(35,934)	31,626	(39,399)	(10,851)
Net decrease in cash and cash equivalents	(169,583)	(265,155)	(122,770)	(8,449)	(161,135)
Cash and cash equivalents at beginning of year/period	916,392	746,809	481,654	481,654	358,884
Effect on foreign exchange rate changes	—	—	—	—	—
Cash and cash equivalents at end of year/period	<u>746,809</u>	<u>481,654</u>	<u>358,884</u>	<u>473,205</u>	<u>197,749</u>

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Net cash flows from/(used in) operating activities

For the three months ended 31 March 2019, we had net cash used in operating activities of approximately RMB113.5 million, which was primarily attributable to (i) profit before tax of approximately RMB170.8 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB9.3 million; and (iii) an outflow of approximately RMB270.4 million for working capital adjustments. Our general working capital adjustments included:

- a decrease in contract liabilities of approximately RMB502.5 million, primarily due to revenue recognized from provision and distribution of heat for the three months ended 31 March 2019;
- a decrease in prepayments and other receivables of approximately RMB269.7 million, primarily due to the decrease in the prepaid heat source fee by approximately RMB277.0 million, partially offset by an increase in prepaid spare parts and consumables purchases by approximately RMB5.3 million;
- a decrease in trade receivables and contract assets of approximately RMB135.6 million, primarily due to payment from our major customers of the construction, maintenance and design services for the three months ended 31 March 2019; and
- a decrease in trade payables of approximately RMB125.5 million, primarily due to payment to our major suppliers of the construction, maintenance and design services for the purchase of materials and labor.

For the year ended 31 December 2018, we had cash outflows to operating activities of approximately RMB101.7 million, which was primarily attributable to (i) profit before tax of approximately RMB139.3 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB121.0 million; and (iii) an outflow of approximately RMB352.6 million for working capital adjustments. Our general working capital adjustments included:

- an increase in trade receivables and contract assets of approximately RMB266.4 million, primarily due to an increase in the volume of construction, maintenance and design services rendered in connection with the Three Supplies and Property Management Operations in 2018;
- an increase in prepayments and other receivables of approximately RMB206.0 million, primarily due to the increase in prepayments of our heat procurement costs to the cogeneration plants as we have fully ceased heat production by coal-fire boilers in April 2018 and rely solely on heat procured from the local cogeneration plants; and

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- an increase in trade payables of approximately RMB96.2 million, primarily due to an increase in the volume of construction, maintenance and design services rendered in 2018, resulting in a corresponding increase in the purchases of materials and labor.

We intend to improve our position of cash flow from operating activities by (i) enhancing our management of trade receivables by making timely records and closely monitoring the collection status of them on a continuous basis to ensure that they are promptly returned and payment reminders are sent, and follow-ups are made in a timely manner; (ii) bargaining for a longer credit period from our suppliers to minimize the time gap between the payments required for procurement of inventories and receipt of construction, maintenance and design service payment; and (iii) controlling the costs of inventories by monitoring such usage against the progress of our construction, maintenance and design services, taking into account the seasonality nature of our business operations. We may also maintain minimal inventory of material and supplies on an as-needed basis for our construction, maintenance and design services during the heat supply period.

For the year ended 31 December 2017, we had net cash generated from operating activities of approximately RMB31.9 million, which was primarily attributable to (i) profit before tax of approximately RMB115.2 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB110.8 million; and (iii) an outflow of approximately RMB200.2 million for working capital adjustments. Our general working capital adjustments included:

- an increase in trade receivables and contract assets of approximately RMB181.3 million, primarily due to an increase in the volume of construction, maintenance and design services rendered in 2017;
- an increase in prepayments and other receivables of approximately RMB67.7 million, primarily due to the prepayments of our heat procurement costs to the cogeneration plants; and
- an increase in contract liabilities of approximately RMB48.6 million, primarily due to an increase in our heat fees received in advance for our heat supply.

For the year ended 31 December 2016, we had net cash generated from operating activities of approximately RMB305.9 million, which was primarily attributable to (i) profit before tax of approximately RMB99.6 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB39.3 million; and (iii) an inflow of approximately RMB162.2 million for working capital adjustments. Our general working capital adjustments included:

- an increase in trade payables of approximately RMB120.1 million, primarily due to an increase in the volume of construction, maintenance and design services rendered in 2016, resulting in a corresponding increase in the purchases of materials and labor;

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- an increase in contract liabilities of approximately RMB66.8 million, primarily due to an increase in our heat fees received in advance for our heat supply; and
- an increase in other current assets of approximately RMB19.9 million, primarily due to deductible VAT.

Net cash flows used in investing activities

During the Track Record Period, our cash outflows to investing activities were principally used in purchases of financial assets at fair value through profit or loss and purchases of items of property, plant and equipment. Our cash inflows from investing activities were principally from proceeds from sale of financial assets at fair value through profit or loss.

For the three months ended 31 March 2019, our net cash used in investing activities amounted to approximately RMB36.8 million, mainly attributable to (i) cash payment in the purchases of items of property, plant and equipment in 2018 of approximately RMB12.2 million, and (ii) loan to related party in the amount of approximately RMB24.5 million which had been repaid in June 2019.

For the year ended 31 December 2018, our net cash used in investing activities amounted to RMB52.7 million, which was primarily due to purchases of items of property, plant and equipment of approximately RMB219.2 million in relation to our construction of primary distribution pipelines connecting to No. 5 Cogeneration Plant, integrated heat distribution system and smart heating network system; partly offset by proceeds from financial assets at fair value through profit or loss of approximately RMB162.0 million.

For the year ended 31 December 2017, our net cash used in investing activities amounted to RMB261.1 million, which was primarily due to (i) purchase of items of property, plant and equipment of RMB222.9 million in relation to our construction of primary distribution pipelines connecting to No. 5 Cogeneration Plant and smart heating network system; (ii) purchases of financial assets at fair value through profit or loss of RMB162.0 million; and (iii) loans to related parties of approximately RMB78.0 million; partly offset by changes in time deposits with an initial term of over three months of approximately RMB200.0 million.

For the year ended 31 December 2016, our net cash used in investing activities amounted to approximately RMB431.2 million, which was primarily due to (i) changes in time deposits with an initial term of over three months of approximately RMB200.0 million; and (ii) purchase of items of property, plant and equipment of RMB216.5 million in relation to our construction of primary distribution pipelines connecting to No. 5 Cogeneration Plant and integrated heat distribution system.

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Net cash flows from/(used in) financing activities

During the Track Record Period, our financing cash inflows were principally generated from proceeds from capital injection from controlling interests and proceeds from bank and other borrowings. Our financing cash outflows were principally due to repayment of bank and other borrowings and deemed distributions.

For the three months ended 31 March 2019, our net cash used in financing activities amounted to approximately RMB10.9 million, mainly attributable to repayment to related parties of approximately RMB0.2 million and repayment of bank and other borrowings of approximately RMB5.0 million.

For the year ended 31 December 2018, our net cash generated from financing activities amounted to RMB31.6 million, which was primarily due to capital injection of approximately RMB78.0 million and proceeds from bank and other borrowings of approximately RMB72.0 million, offset by repayment of bank and other borrowings of approximately RMB67.0 million.

For the year ended 31 December 2017, our net cash outflows due to financing activities amounted to RMB35.9 million, which was primarily due to (i) deemed distributions of equity interest of certain associates and unlisted equity investments which were not included in our Group during the Reorganization of approximately RMB239.8 million; and (ii) repayment of bank and other borrowings of approximately RMB122.4 million. The financing cash outflow was partly offset by proceeds from bank and other borrowings of approximately RMB145.0 million.

For the year ended 31 December 2016, our net cash outflows due to financing activities amounted to RMB44.3 million, which was primarily due to repayment of bank and other borrowings of approximately RMB77.2 million, partly offset by capital injection from controlling interest of approximately RMB51.5 million.

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NET CURRENT ASSETS/LIABILITIES

The following table sets out our current assets, current liabilities and net current assets/liabilities as at the dates indicated.

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Current assets					
Inventories	42,342	48,144	11,369	29,670	18,974
Trade receivables	38,996	113,538	200,148	205,522	165,195
Contract assets	13,186	109,554	262,215	133,717	153,061
Prepayments and other receivables	153,093	308,254	335,316	90,197	21,010
Other current assets	47,710	66,330	19,867	36,312	37,638
Financial assets at fair value through profit or loss	–	162,013	–	–	–
Restricted bank deposits and time deposits with an initial term of over three months	203,703	703	–	–	–
Cash and cash equivalents	746,809	481,654	358,884	197,749	86,537
Total current assets	<u>1,245,839</u>	<u>1,290,190</u>	<u>1,187,799</u>	<u>693,167</u>	<u>482,415</u>
Current liabilities					
Trade payables	240,891	238,276	320,814	195,296	138,776
Other payables and accruals	342,961	555,352	97,026	75,221	61,441
Interest-bearing bank and other borrowings	140,094	107,021	108,000	103,000	–
Lease liabilities – current	465	–	1,493	1,535	1,581
Tax payable	56,920	87,364	39,020	52,754	26,735
Early retirement and supplemental benefit obligations	2,265	2,180	1,183	1,345	1,345
Contract liabilities	600,121	656,670	609,222	120,090	107,687
Deferred income	2,388	2,733	1,793	1,793	1,700
Total current liabilities	<u>1,386,105</u>	<u>1,649,596</u>	<u>1,178,551</u>	<u>551,034</u>	<u>339,265</u>
Net current (liabilities)/assets	<u>(140,266)</u>	<u>(359,406)</u>	<u>9,248</u>	<u>142,133</u>	<u>143,150</u>

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As at 31 July 2019, our net current assets were approximately RMB143.2 million, consisting of current assets of approximately RMB482.4 million and current liabilities of approximately RMB339.3 million. Our net current assets increased by RMB1.1 million, or 0.7%, from RMB142.1 million as at 31 March 2019 to RMB143.2 million as at 31 July 2019. This increase was primarily due to (i) a decrease in interest-bearing bank and other borrowings by approximately RMB103.0 million; (ii) a decrease in trade payables by approximately RMB56.5 million; and (iii) a decrease in tax payable by approximately RMB26.0 million, partly offset by (i) a decrease in cash and cash equivalents by approximately RMB111.2 million; (ii) a decrease in prepayments and other receivables by approximately RMB69.2 million; and (iii) a decrease in trade receivables by approximately RMB40.3 million.

As at 31 March 2019, our net current assets were approximately RMB142.1 million, consisting of current assets of approximately RMB693.2 million and current liabilities of approximately RMB551.1 million. Our net current assets increased by RMB132.9 million, or 1,436.9%, from approximately RMB9.2 million as at 31 December 2018 to approximately RMB142.1 million as at 31 March 2019. This increase was primarily due to (i) a substantial decrease in contract liabilities by approximately RMB489.1 million resulting from revenue recognition of heat fees received in advance; and (ii) a decrease in trade payables by approximately RMB125.5 million resulting from settlement of trade payables, partly offset by (i) a decrease in prepayments and other receivables by approximately RMB245.1 million resulting from the utilization of the heat procured from the cogeneration plants; (ii) a decrease in contract assets by approximately RMB128.5 million resulting from an increase in our bills issued to customers of our construction, maintenance and design services and payments received thereunder; and (iii) a decrease in cash and cash equivalents by approximately RMB161.2 million primarily resulting from an increase in cash used in operating activities, financing activities and investing activities for approximately RMB113.5 million, RMB10.9 million and RMB36.8 million, respectively.

As at 31 December 2018, our net current assets were approximately RMB9.2 million, consisting of total current assets of approximately RMB1,187.8 million and total current liabilities of approximately RMB1,178.6 million. The change to net current assets as recorded in 2018 from our net current liabilities recorded in 2017 was primarily due to (i) a significant decrease in other payables and accruals by approximately RMB458.3 million mainly in relation to acquisition of property, plants and equipment and certain other payables and accruals being part of the Other Retained Assets and Liabilities which were not transferred to our Group during the Reorganization; (ii) an increase in contract assets by RMB152.7 million and an increase in trade receivables by approximately RMB86.6 million primarily due to an increase in the volume of construction, maintenance and design services rendered, partly offset by (i) the absence of financial assets at fair value through profit or loss by approximately RMB162.0 million; and (ii) a decrease in cash and cash equivalents by approximately RMB122.8 million primarily due to cash outflows to operating activities.

As at 31 December 2017, our net assets were approximately RMB292.7 million and our net current liabilities were approximately RMB359.4 million, consisting of current assets of approximately RMB1,290.2 million and current liabilities of approximately RMB1,649.6 million. Our net current liabilities increased by approximately RMB219.1 million, or 156.2%,

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from RMB140.3 million as at 31 December 2016 to RMB359.4 million as at 31 December 2017. This increase was primarily due to a significant decrease in cash and cash equivalents by approximately RMB265.2 million, or 35.5%, primarily due to acquisitions of equity interest by our Group in certain associates and unlisted equity investments at fair value through other comprehensive income with a total amount of approximately RMB239.8 million by cash and cash equivalents in 2017. As these investments were unrelated to the Core Operations, they were not transferred to our Group during the Reorganization and were accounted for as deemed distributions to Changchun Heating Group during 2017 in the historical financial information of our Group.

Our net current liabilities recorded as at 31 December 2016 and 2017 were primarily due to (i) capital expenditures incurred in the amount of RMB326.1 million and RMB213.3 million in 2016 and 2017, respectively, for the acquisition of property, plant and equipment which were mainly for the construction of primary distribution pipelines connecting to No. 5 Cogeneration Plant and the construction of our integrated heat distribution network connecting No. 2 Cogeneration Plant, No. 4 Cogeneration Plan and No. 5 Cogeneration Plant to our primary distribution network; and (ii) acquisitions of equity interest by our Group in certain associates and unlisted equity investments at fair value through other comprehensive income with a total amount of approximately RMB239.8 million by cash and cash equivalents in 2017 which were accounted for as deemed distributions as described above.

INDEBTEDNESS

The following table sets out our total debts including interest-bearing bank and other borrowings and lease liabilities as at the dates indicated:

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current					
Interest-bearing bank and other borrowings	140,094	107,021	108,000	103,000	–
Lease liabilities	465	–	1,493	1,535	1,581
	<u>140,559</u>	<u>107,021</u>	<u>109,493</u>	<u>104,535</u>	<u>1,581</u>
Non-current					
Interest-bearing bank and other borrowings	103,553	159,500	–	–	–
Lease liabilities	–	–	2,346	2,040	1,696
	<u>103,553</u>	<u>159,500</u>	<u>2,346</u>	<u>2,040</u>	<u>1,696</u>
Total	<u>244,112</u>	<u>266,521</u>	<u>111,839</u>	<u>106,575</u>	<u>3,277</u>

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Interest-bearing Bank and Other Borrowings

As at 31 December 2016, 2017 and 2018, 31 March 2019 and 31 July 2019, our interest-bearing bank and other borrowings were approximately RMB243.6 million, RMB266.5 million, RMB108.0 million, RMB103.0 million and nil, respectively. Our interest-bearing bank and other borrowings consist of (i) unsecured bank borrowings; and (ii) secured other borrowings from a related party Jilin Xinda; and (iii) unsecured other borrowings from Changchun Municipal Finance Bureau, Changchun Municipal Public Utilities Bureau and a related party Jilin Xinda. Our bank loans and other bank borrowings were denominated in RMB and Euro. Euro-denominated bank loans represent a long-term loan effective in 2005 for the purposes of equipment and machinery purchase from Denmark. The effective interest rates range from 0% to 12% for our bank loans and other borrowings during the Track Record Period. Our bank and other borrowings do not carry any material restrictive covenants.

The following table sets out the components of our bank and other borrowings as at the dates indicated.

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Current					
Bank borrowings – unsecured	10,094	7,021	–	–	–
Other borrowings – secured	–	–	101,000	96,000	–
Other borrowings – unsecured	130,000	100,000	7,000	7,000	–
	<u>140,094</u>	<u>107,021</u>	<u>108,000</u>	<u>103,000</u>	<u>–</u>
Non-current					
Bank borrowings – unsecured	49,053	42,000	–	–	–
Other borrowings – secured	–	103,000	–	–	–
Other borrowings – unsecured	54,500	14,500	–	–	–
	<u>103,553</u>	<u>159,500</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u>243,647</u>	<u>266,521</u>	<u>108,000</u>	<u>103,000</u>	<u>–</u>

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Secured bank and other borrowings represent other borrowings in the amount of approximately RMB103.0 million incurred in 2017 with a related party Jilin Xinda. The balance of such secured other borrowings was reduced to RMB101.0 million as at 31 December 2018. These other borrowings were secured by collection rights of approximately RMB103.0 million and RMB101.0 million as of 31 December 2017 and 2018, respectively. We also entered into unsecured other borrowings with Jilin Xinda in a total amount of RMB7.0 million in 2018.

The following table sets out a breakdown of our bank and other borrowings by denominated currency as at the dates indicated.

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Interest-bearing bank and other borrowings denominated in					
RMB	233,500	263,000	108,000	103,000	–
EURO	10,147	3,521	–	–	–
Total	<u>243,647</u>	<u>266,521</u>	<u>108,000</u>	<u>103,000</u>	<u>–</u>

The following table sets out our bank and other borrowings by repayment date as at the dates indicated.

	As at 31 December			As at 31 March	As at 31 July
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Within one year	140,094	107,021	108,000	103,000	–
In the second year	47,053	106,500	–	–	–
In the third to fifth years, inclusive	10,500	10,500	–	–	–
Beyond five years	46,000	42,500	–	–	–
	<u>243,647</u>	<u>266,521</u>	<u>108,000</u>	<u>103,000</u>	<u>–</u>

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Our interest-bearing bank and other borrowings increased by RMB22.9 million, or 9.4%, from RMB243.6 million as at 31 December 2016, to RMB266.5 million as at 31 December 2017, primarily attributed to (i) the secured other borrowings in the amount of approximately RMB145.0 million in 2017 with Jilin Xinda; and (ii) our repayment of bank and other borrowings of approximately RMB122.1 million. Our interest-bearing bank and other borrowings decreased by RMB158.5 million, or 59.5%, from RMB266.5 million as at 31 December 2017 to RMB108.0 million as at 31 December 2018 and further by RMB5.0 million, or 4.6%, to RMB103.0 million as at 31 March 2019. This decrease was primarily due to (i) certain bank and other borrowings were part of the Other Retained Assets and Liabilities which were not transferred to our Group; and (ii) repayment of certain bank and other borrowings, partly offset by additional other borrowings incurred and extension of certain portion of existing other borrowings. We have fully repaid other borrowings due to Jilin Xinda of RMB103.0 million in June 2019.

As at 31 July 2019, being the latest practicable date for the purposes of our indebtedness statement, we did not have any unutilized banking facilities. On 30 August 2019, a local bank offered our Company a revolving one-year banking facility at the amount of RMB500 million, without guarantee, in view of our good credit history. As at the Latest Practicable Date, we had drawn down RMB10.71 million with a fixed interest rate of 4.35% per annum to finance our working capital. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material difficulty in obtaining bank loans and other borrowings or receiving other financing for the purposes of our business operations, nor did we have material defaults in repayment of bank and other borrowing or payments of trade and non-trade payables.

Lease Liabilities

During the Track Record Period, we had only leased a few properties for our operational needs. Thus, we consider that the adoption of IFRS 16 did not have a significant impact on our financial position and performance. For details, please refer to the section headed “– Basis of Presentation – Early Application of IFRS 9, IFRS 15 and IFRS 16”. As at 31 July 2019, our Group had current lease liabilities and non-current lease liabilities amounting to approximately RMB1.6 million and RMB1.7 million, respectively.

Indebtedness Statement and Confirmation

Except as disclosed in this prospectus or any intra-group liabilities, we 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. Save as disclosed above, our Directors confirm that there is no material adverse change in our indebtedness since 31 July 2019 and up to the date of this prospectus.

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DISCUSSION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories mainly consist of materials and supplies as well as coal. Materials and supplies mainly consist of pipeline components, valves and other materials necessary for heat supply. We may, under exceptional circumstance, also maintain minimal inventory of material and supplies on an as-needed basis for our construction, maintenance and design services. Coal was purchased in connection with heat produced by coal-fired boilers. There were no pledged inventories as at 31 December 2016, 2017 and 2018 and 31 March 2019. The following table shows a summary of the inventories as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Materials and supplies	9,602	14,612	11,912	30,213
Coal	38,685	39,477	5,088	5,088
	<u>48,287</u>	<u>54,089</u>	<u>17,000</u>	<u>35,301</u>
Less:				
Impairment of inventories	<u>(5,945)</u>	<u>(5,945)</u>	<u>(5,631)</u>	<u>(5,631)</u>
	<u>42,342</u>	<u>48,144</u>	<u>11,369</u>	<u>29,670</u>

Our inventories increased by RMB5.8 million, or 13.7%, from RMB42.3 million as at 31 December 2016 to RMB48.1 million as at 31 December 2017, primarily due to an increase in materials and supplies from approximately RMB9.6 million as at 31 December 2016 to approximately RMB14.6 million as at 31 December 2017, resulting from unutilized pipeline components, valves and other materials purchased for certain upgrading work. The inventories of coal slightly increased from 31 December 2016 to 31 December 2017, primarily due to our consumption of coal stock, as well as an increase in coal price in the second half of 2017. Our inventories decreased by RMB36.7 million, or 76.4%, from RMB48.1 million as at 31 December 2017 to RMB11.4 million as at 31 December 2018 primarily due to a decrease in purchases of coal in consideration of our discontinuation of heat production by coal-fired boilers in 2018 and utilization of stock of materials and supplies. Our inventories increased by RMB18.3 million, or 161.0%, to approximately RMB29.7 million as at 31 March 2019 due to an increase in materials and supplies from approximately RMB11.9 million as at 31 December 2018 to approximately RMB30.2 million as at 31 March 2019, resulting from materials purchased for our ongoing construction projects.

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As at 31 December 2016, 2017 and 2018 and 31 March 2019, our provision for impairment on inventories was approximately RMB5.9 million, RMB5.9 million, RMB5.6 million and RMB5.6 million, respectively. It is our Group's policy to make assessment for impairment on our inventories and identify inventory impairment by regularly reviewing the costs and market prices of our products. Where the net realized value of inventory is lower than the costs, the net realizable value will be adjusted accordingly to reflect the situation.

The following table sets out our average inventory turnover days for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March
	2016	2017	2018	2019
Average inventory turnover days ⁽¹⁾	<u>22</u>	<u>20</u>	<u>11</u>	<u>6</u>

Note:

- (1) Average inventory turnover days are equal to the average gross inventory divided by cost of sales and multiplied by 365 days for a year (or 90 days for the three-month period). Average gross inventories are equal to gross inventories at the beginning of the period plus gross inventories at the end of the period and divided by two.

Our average inventory turnover days slightly decreased from 22 days in 2016 to 20 days in 2017, which was relatively stable. Our average inventory turnover days decreased from 20 days in 2017 to 11 days in 2018, and further decreased to 6 days as at 31 March 2019, primarily due to the decrease in our purchase of coal and seasonality effect as we typically incur significant amount of cost of sales during the first quarter of each year.

As at 31 July 2019, approximately RMB10.8 million or 36.4% of our inventories as at 31 March 2019 was subsequently utilized or sold.

Trade Receivables

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our net trade receivables were approximately RMB39.0 million, RMB113.5 million, RMB200.1 million and RMB205.5 million, respectively. Our trade receivables mainly represent the amounts receivable from (i) customers of our construction, maintenance and design services, and (ii) certain large end-users of our heat supply, such as governmental institutions and universities. For more information relating to credit policy, please refer to the section headed "Business – Heat Supply – Sale of Heat – Credit Policy" and "Business – Construction, Maintenance and Design Services – Credit Policy" in this prospectus.

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Our net trade receivables increased by approximately RMB74.5 million, or 191.2%, from approximately RMB39.0 million as at 31 December 2016 to approximately RMB113.5 million as at 31 December 2017, primarily due to (i) fees for provision and distribution of heat and heat transmission fees due from two heat service providers; (ii) new customers for our engineering construction services were engaged in second half of 2017 and thus certain trade receivables were unsettled as at 31 December 2017; and (iii) expansion of engineering maintenance services in 2017, which resulted in an increased amount of corresponding trade receivables. Our net trade receivables increased by RMB86.6 million, or 76.3%, from RMB113.5 million as at 31 December 2017 to RMB200.1 million as at 31 December 2018, primarily due to an increase in our newly engaged engineering construction services in 2018 while the trade receivables from customers are yet to be settled as at 31 December 2018. Our trade receivables increased by approximately RMB5.4 million, or 2.7%, from RMB200.1 million as at 31 December 2018 to approximately RMB205.5 million as at 31 March 2019, primarily due to (i) an increase in fees for provision and distribution of heat and heat transmission fees due from two heat service providers; and (ii) an increase in our new projects engaged for our engineering construction services in the first quarter of 2019 while the trade receivables from customers are yet to be settled as at 31 March 2019, which was partially offset by a decrease in the trade receivables of our engineering maintenance service.

The following table shows a summary of the trade receivables as at the dates indicated.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	61,321	140,726	224,089	228,675
Less: Provision for impairment	(22,325)	(27,188)	(23,941)	(23,153)
	<u>38,996</u>	<u>113,538</u>	<u>200,148</u>	<u>205,522</u>

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate their fair values.

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The following table sets out our average trade receivables turnover days for the periods indicated.

	Average trade receivables turnover days ⁽¹⁾			
	For the year ended 31 December			For the three months ended
	2016	2017	2018	31 March 2019
Segment				
Heat Supply	18	27	25	10 ⁽²⁾
Construction, maintenance and design services	163	54	87	255 ⁽³⁾
Group	<u>31</u>	<u>33</u>	<u>46</u>	<u>37</u>

Notes:

- (1) Average trade receivables turnover days are equal to the average gross trade receivables divided by revenue and multiplied by 365 days for a year (or 90 days for the three-month period). Average gross trade receivables are equal to gross trade receivables at the beginning of the period plus gross trade receivables at the end of the period and divided by two.
- (2) The low trade receivables turnover days of our heat supply segment for the three months ended 31 March 2019 was mainly due to the seasonality effects of our heat supply service, which resulted in recognition of large amount of our heat supply revenue in such period.
- (3) The high trade receivables turnover days of our provision of construction, maintenance and design services for the three months ended 31 March 2019 was mainly due to the fact that most of our heat supply related construction projects were undertaken outside the heat supply period, which resulted in small amount of revenue from our construction, maintenance and design services segment in such period.

Average trade receivables turnover days provide a general indication of the time required for us to collect cash payments from customers. Our average trade receivables turnover days slightly increased from 31 days in 2016 to 33 days in 2017, which was relatively stable. Our average trade receivables turnover days increased from 33 days in 2017 to 46 days in 2018 primarily due to the increase in revenue contribution of our construction, maintenance and design services. Our average trade receivables turnover days decreased to 37 days for the three months ended 31 March 2019, primarily due to (i) a decrease of trade receivables of our construction, maintenance, and design services; and (ii) the seasonality effect as heat supply revenue tends to be large in the first quarter of each year.

As at 31 July 2019, approximately RMB80.1 million, or 35.0%, of our trade receivables as at 31 March 2019 were subsequently settled. The settlement of our trade receivables for the period from 1 April to 31 July 2019 had slowed down when comparing to the first quarter of 2019, mainly because of the settlement pattern that a significant portion of fee collection

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occurs before the Chinese New Year from our construction and maintenance projects in connection with the Three Supplies and Property Management Operations, and approximately RMB162.5 million was received before the Chinese New Year in 2019. These projects commenced in the second half of 2017. In January 2018, we billed the customers of such projects approximately RMB76.2 million, of which approximately RMB70.2 million was settled in February 2018. After the Chinese New Year, settlement rate of our trade receivables of these projects would return to the normal collection progress.

Our Directors confirm that the perceived slow down of the subsequent settlement of our trade receivables since 31 March 2019 was not due to any disputes with our major customers or their financial difficulties. The change in the ageing of our Group's trade receivables is expected to be temporary and it will not have a significant impact on the overall working capital of our Group.

An aged analysis of the trade receivables as at the dates indicated, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	26,659	97,950	185,862	190,351
Between 1 and 2 years	4,832	10,073	12,790	13,596
Between 2 and 3 years	6,672	1,191	926	830
Between 3 and 4 years	677	4,216	472	562
Between 4 and 5 years	156	108	98	183
Over 5 years	—	—	—	—
	<u>38,996</u>	<u>113,538</u>	<u>200,148</u>	<u>205,522</u>

The movements in loss allowance for impairment of trade receivables as at the dates indicated are as follows.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	28,635	22,325	27,188	23,941
Distribution to the Shareholder upon completion of the Reorganization	—	—	(12,029)	—
Impairment loss recognized	210	4,863	10,948	9,096
Impairment loss reversed	(6,520)	—	(2,166)	(9,884)
At the end of the year/period	<u>22,325</u>	<u>27,188</u>	<u>23,941</u>	<u>23,153</u>

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As at 31 December 2016, 2017 and 2018 and 31 March 2019, respectively, a loss allowance for impairment of approximately RMB22.3 million, RMB27.2 million, RMB23.9 million and RMB23.2 million was provided against the gross amounts of trade receivables. We apply the simplified approach to the provision for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables (excluding receivables from our Controlling Shareholder and fellow subsidiaries). To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Contract Assets

The contract assets primarily relate to our right to consideration for work completed and not billed because the rights are conditioned on our future performance in satisfying the respective performance obligations at the reporting date in respect of construction contracts. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our contract assets amounted to RMB13.2 million, RMB109.6 million, RMB262.2 million and RMB133.7 million, respectively.

Our contract assets increased by approximately RMB96.4 million, or 730.3%, from approximately RMB13.2 million as at 31 December 2016 to approximately RMB109.6 million as at 31 December 2017, primarily due to an increase in the amounts recognized as revenue and certain progress billings and amount were not yet transferred to trade receivables. Our contract assets increased by approximately RMB152.6 million, or 139.2%, from approximately RMB109.6 million as at 31 December 2017 to approximately RMB262.2 million as at 31 December 2018 primarily due to an increase in our completed construction, maintenance and design services, and decreased to approximately RMB133.7 million as at 31 March 2019, primarily due to an increase in our billing of our completed work in our construction, maintenance and design services.

Our contract assets consist of:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Contract assets arising from construction and maintenance services	14,263	116,184	283,334	143,131
Settled within one year	14,071	115,775	271,404	130,816
Settled in more than one year	192	409	11,930	12,315
Less: Provision for impairment	(1,077)	(6,630)	(21,119)	(9,414)
	<u>13,186</u>	<u>109,554</u>	<u>262,215</u>	<u>133,717</u>

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The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

As at 31 July 2019, approximately RMB24.7 million, or 17.3% of our contract assets as at 31 March 2019 had been subsequently certified by our customers, and thus billed, of which approximately RMB24.3 million, or 98.4% had been subsequently settled.

For the period from 1 April to 31 July 2019, subsequent billing of our Group's contract assets was relatively slow, mainly caused by the fact that most of our contract assets had not yet reached the next payment milestone. Bills will be issued after completion of a certification process upon completion of a certain stage of the project (or the entire project in some cases), which usually involves reviewing projects and negotiation with customers. Given that some of our Group's projects involved are municipal projects and construction and maintenance projects in connection with the Three Supplies and Property Management Operations, financial auditing by the relevant independent third parties appointed by government authorities at the municipal and/or national level will also be required upon completion of projects. Due to the number of parties and government authorities involved, the review and negotiation processes may take several months and only a few review processes had been completed during April to July 2019. Our Directors confirm that our Group had not been in any dispute with any of our major customers regarding certification of our contract assets during the Track Record Period and up to the Latest Practicable Date.

The following table sets out our average trade receivables and contract assets turnover days for the periods indicated.

	Average trade receivables and contract assets turnover days ⁽¹⁾			For the three months ended 31
	For the year ended 31 December			March
	2016	2017	2018	2019
Segment				
Heat Supply ⁽²⁾	18	27	25	10
Construction, maintenance and design services	223	148	232	567 ⁽³⁾
Group	34	55	97	72

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Notes:

- (1) Average trade receivables and contract assets turnover days are equal to the average gross trade receivables and average gross contract assets divided by revenue and multiplied by 365 days for a year (or 90 days for the three-month period). Average gross trade receivables are equal to gross trade receivables at the beginning of the period plus gross trade receivables at the end of the period and divided by two. Average gross contract assets are equal to gross contract assets at the beginning of the period plus gross contract assets at the end of the period and divided by two.
- (2) For our heat supply segment, the average trade receivables and contract assets turnover days were the same as the average trade receivable turnover days since the revenue recognised under this segment is not conditional and thus the contract assets is not applicable.
- (3) The high turnover days of the average trade receivables and contract assets of our construction, maintenance and design services for the three months ended 31 March 2019 was mainly due to majority of our heat supply related construction projects being undertaken outside the heat supply period, resulting in smaller amount of revenue from our construction, maintenance and design services segment in such period.

The average trade receivables and contract assets turnover days of our construction, maintenance and design services decreased from 223 days in 2016 to 148 days in 2017 mainly due to the fact that the revenue of construction, maintenance and design services in 2017 shown a significant increase compared to that in 2016, which led to a significant increase in the balance of trade receivables and contract assets at the year end of 2017 accordingly. However, majority of those revenue were generated in the second half of 2017 and the balance of trade receivables and contract assets were relatively small at the beginning of 2017, resulting in a relatively small average balance of trade receivables and contract assets and low turnover days accordingly. The average trade receivables and contract assets turnover days of our construction, maintenance and design services increased to 232 days in 2018 primarily because the related revenue growth rate of 2018 was lower than that of 2017. In addition, as (i) the beginning balance of trade receivables and contract assets in 2017 was much larger than that of 2016; and (ii) some trade receivables and contract assets of certain large construction projects had not been collected by the year end of 2018, the balance of trade receivables and contract assets of our construction, maintenance and design services increased accordingly.

The average trade receivables and contract assets turnover days of our Group increased from 34 days in 2016 to 55 days in 2017 mainly due to the increase of turnover days in the heat supply segment, which was a major contributor to our Group's total revenue during that period. The average trade receivables and contract assets turnover days of our Group increased from 55 days in 2016 to 97 days in 2017 mainly due to (i) relatively stable turnover days in the heat supply segment, and (ii) increased turnover days in the construction, maintenance and design services segment for the reasons discussed above.

Prepayments and other Receivables

Prepayments and other receivables primarily consist of (i) prepayments of heat source fees; (ii) staff advances; (iii) deposits; (iv) interest receivables in relation to our bank deposits; (v) amount due from related parties; (vi) payment on behalf of other parties; and (vii) others which include prepayments of utility costs, maintenance fees, fuel costs and receivables related

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to employee insurance payments. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our prepayments and other receivables were approximately RMB153.1 million, RMB308.3 million, RMB335.3 million and RMB90.2 million, respectively.

Our prepayments and other receivables increased by approximately RMB155.2 million, or 101.4%, from approximately RMB153.1 million as at 31 December 2016 to approximately RMB308.3 million as at 31 December 2017, primarily due to an increase in loans to related parties. Our prepayments and other receivables increased by RMB27.0 million, or 8.8%, from RMB308.3 million as at 31 December 2017 to RMB335.3 million as at 31 December 2018, primarily due to increase in prepayment of heat procurement costs to the cogeneration plants, and decreased to RMB90.2 million as at 31 March 2019, primarily due to a decrease in prepayment of heat procurement costs to the cogeneration plants, which was partially offset by an increase in the amount due from the Shareholder (i.e Changchun Heating Group). We are usually required by the cogeneration plants to make full payment of the heat procurement costs for the entire annual heat supply period before the heat supply period begins. Monthly fees are deducted from prepayments made based on actual monthly heat supply volume confirmed by our Company and the cogeneration plants. As the heat supply period ends in April, most of the prepayment of heat procurement costs to the cogeneration plants had been deducted, resulting in the decrease in the prepayments as at 31 March 2019. For more details in relation to the prepayment to the cogeneration plants, please refer to the section headed “Business – Heat Supply – Heat Procurement from Cogeneration Plants – Pricing, Billing and Payment” in this prospectus.

The following table sets out a breakdown of our prepayments and other receivables as at the dates indicated.

	As at 31 December			As at 31 March 2019
	2016	2017	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	120,506	146,802	304,516	32,838
Due from related parties	4,674	7,422	4,422	5,281
Due from the Shareholder	10,855	20,462	4,152	28,625
Staff advances	1,146	1,200	376	595
Deposits	3,575	3,727	2,696	3,549
Interest receivable	3,456	–	–	–
Loans to related parties	–	78,000	–	–
Payment on behalf of other parties	3,130	42,950	12,750	12,750
Others	8,344	9,699	6,475	6,586
	<u>155,686</u>	<u>310,262</u>	<u>335,387</u>	<u>90,224</u>
Less: Provision for impairment	<u>(2,593)</u>	<u>(2,008)</u>	<u>(71)</u>	<u>(27)</u>
	<u>153,093</u>	<u>308,254</u>	<u>335,316</u>	<u>90,197</u>

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Our prepayments mainly include prepayment of heat procurement.

Our amounts due from related parties and the Shareholder (i.e. Changchun Heating Group) were non-trade in nature, unsecured, interest-free and will be settled by cash prior to the Listing.

Our loans advanced to our related parties in 2017 were unsecured, repayable on demand and had a fixed interest rate of 5% per annum. The loans were part of the Other Retained Assets and Liabilities and thus had not been included in the financial information for the year ended 31 December 2018.

Our payments which we made on behalf of the other parties were primarily related to (i) municipal engineering projects in 2017, pursuant to which our Controlling Shareholder was appointed by Changchun Public Administration Bureau as the main contractor and made payments in an aggregate amount of approximately RMB39.8 million to our subcontractors on behalf of Changchun Public Administration Bureau. This was part of the Other Retained Assets and Liabilities and thus had not been included in the financial information for the year ended 31 December 2018; and (ii) those made on behalf of a potential target company that our Controlling Shareholder intended to acquire, in the amount of approximately RMB12.8 million in 2018. We made those payments at the request of our Controlling Shareholder. It subsequently determined not to pursue the acquisition of the target company and the outstanding amount was repaid in June 2019. Our Directors confirm that all outstanding amounts made on behalf of other parties will be settled by cash prior to the Listing. All other parties on behalf of which we made payments for are Independent Third Parties.

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

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	2,644	2,593	2,008	71
Distribution to the Shareholder upon completion of the Reorganization	–	–	(1,985)	–
Impairment loss recognized	52	–	48	–
Impairment loss reversed	(103)	(585)	–	(44)
At the end of the year/period	<u>2,593</u>	<u>2,008</u>	<u>71</u>	<u>27</u>

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Other Current Assets

Other current assets primarily consist of (i) deductible value added tax; (ii) prepaid land tax and property tax; (iii) deferred expenses; and (iv) the addition of prepaid transaction cost pursuant to initial public offering. Heat fees from residential end-users are exempted from value added tax, land tax and property tax under the relevant PRC laws and regulations. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our other current assets were approximately RMB47.7 million, RMB66.3 million, RMB19.9 million and RMB36.3 million, respectively.

Our other current assets increased by approximately RMB18.6 million, or 39.0%, from approximately RMB47.7 million as at 31 December 2016 to approximately RMB66.3 million as at 31 December 2017, primarily due to an increase in deductible VAT. Our other current assets decreased by RMB46.4 million, or 70.0%, from RMB66.3 million as at 31 December 2017 to RMB19.9 million as at 31 December 2018 primarily due to a decrease in deductible VAT by approximately RMB53.0 million which was part of the Other Retained Assets and Liabilities and was not transferred to our Group, partly offset by the addition of prepaid transaction cost pursuant to initial public offering of approximately RMB12.1 million. Our other current assets increased to RMB36.3 million as at 31 March 2019, primarily due to an increase in deductible VAT by approximately RMB9.5 million and an increase in the prepaid transaction cost pursuant to initial public offering of approximately RMB7.2 million.

The following table sets out our other current assets as at the dates indicated.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deductible VAT	38,016	55,103	2,127	11,662
Prepaid land tax and property tax	1,451	1,685	–	–
Deferred expenses	8,243	9,542	5,347	4,626
Prepaid transaction cost pursuant to initial public offering	–	–	12,099	19,314
Others	–	–	294	710
	<u>47,710</u>	<u>66,330</u>	<u>19,867</u>	<u>36,312</u>

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The deferred expenses recognized by our Group during the Track Record Period mainly include deferred decoration expenses related to office properties due within one year. Decoration expenses related to office properties are capitalized and amortized on a straight-line basis over a generally estimated useful life of 5 years or the actual lease term, whichever is shorter. The portion due within one year is included in other current assets and the portion due over one year is included in other non-current assets. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the deferred decoration expenses of our Group due within one year were approximately RMB6.9 million, RMB8.4 million, RMB4.6 million and RMB4.6 million, respectively.

The increase of RMB1.3 million in deferred expenses of our Group as at 31 December 2017 as compared to that of 31 December 2016 was mainly due to the increase of RMB1.5 million in deferred decoration expenses due within one year as at 31 December 2017 as our Group carried out certain decoration works at the former headquarters of our Group in 2017.

The decrease of RMB4.2 million in deferred expenses of our Group as at 31 December 2018 as compared to that of 31 December 2017 was mainly due to the significant decrease in deferred decoration expenses as the former headquarters and related deferred decoration expenses were part of the Other Retained Assets and Liabilities which were not transferred to our Company in the Reorganization.

Financial Assets at Fair Value through Profit or Loss

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our financial assets at fair value through profit or loss were nil, approximately RMB162.0 million, nil and nil, respectively.

These financial assets as at 31 December 2017 consist of bank's wealth management products purchased from Bank of China Co., Ltd. which were mainly investments in financial instruments issued by banks without guarantee returns. The fair values of financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

As at the Latest Practicable Date, we currently do not have any plans to continue to invest in such financial assets after the Listing.

Trade Payables

Our trade payable primarily relate to our purchase of materials, supplies and coal that we require for our business operations. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our trade payables were approximately RMB240.9 million, RMB238.3 million, RMB320.8 million and RMB195.3 million, respectively.

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Our trade payables slightly decreased by RMB2.6 million, or 1.1%, from RMB240.9 million as at 31 December 2016 to RMB238.3 million as at 31 December 2017. Our trade payables increased by RMB82.5 million, or 34.6%, from RMB238.3 million as at 31 December 2017 to RMB320.8 million as at 31 December 2018, primarily due to an increase in purchases of materials and labor for the increased volume of construction, maintenance and design services we rendered. Our trade payables decreased to approximately RMB195.3 million as at 31 March 2019, primarily due to our subsequent settlement of such trade payables to suppliers of construction, maintenance and design services.

The following table sets out our average trade payable turnover days for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March
	2016	2017	2018	2019
Average trade payables turnover days ⁽¹⁾	<u>91</u>	<u>95</u>	<u>84</u>	<u>62</u>

Note:

- (1) Average trade payables turnover days is equal to the average trade payables divided by cost of sales and multiplied by 365 days for a year (or 90 days for the three-month period). Average trade payables are equal to trade payables at the beginning of the period plus trade payables at the end of the period and divided by two.

Our average trade payable turnover days slightly increased from 91 days in 2016 to 95 days in 2017, which was relatively stable. Our average trade payables turnover days decreased from 95 days in 2017 to 84 days in 2018, and further decreased to 62 days as at 31 March 2019, primarily due to (i) settlement of trade payable to the suppliers for our construction, maintenance and design services; and (ii) the seasonality effect as we typically incur significant amount of cost of sales during the first quarter of each year.

As at 31 July 2019, approximately RMB65.6 million, or 33.6%, of our trade payables as at 31 March 2019 were subsequently settled. We had a slower settlement rate of our trade payables for the period from 1 April to 31 July 2019 as compared with the first quarter of 2019 mainly due to (i) approximately RMB175.4 million was settled during the period from 1 January to 28 February 2019 pursuant to the customary practice in the PRC to settle bills before the Chinese New Year, and the settlement after the Chinese New Year is usually slower; and (ii) our Group had received less settlement from trade receivables during the period from 1 April to 31 July 2019, and therefore our Group had negotiated with our suppliers for a longer settlement period. Our Directors confirm that the slow down of the subsequent settlement of our trade payables since 31 March 2019 was not due to any disputes with our major suppliers or our financial difficulties.

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An aging analysis of the trade payables as at the dates indicated, based on the invoice dates, is as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	205,496	133,805	144,544	174,005
More than one year	35,395	104,471	176,270	21,291
	<u>240,891</u>	<u>238,276</u>	<u>320,814</u>	<u>195,296</u>

Our trade payables are non-interest-bearing and are normally settled within 90 days. The carrying amounts of the trade payables approximate their fair values.

Other payables and accruals

Our other payables and accruals consist of (i) deposits; (ii) payables for acquisition of properties, plant and equipment; (iii) other taxes payables; (iv) amount due to related parties; (v) salaries, bonus and staff welfare benefits payables; and (vi) other payables which primarily include social welfare payments and utility costs. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our other payables and accruals were approximately RMB343.0 million, RMB555.4 million, RMB97.0 million and RMB75.2 million, respectively.

Our other payables and accruals increased by approximately RMB212.4 million, or 61.9%, from approximately RMB343.0 million as at 31 December 2016 to approximately RMB555.4 million as at 31 December 2017, primarily due to an amount due to related parties of approximately RMB198.6 million in connection with the Three Supplies and Property Management Operations performed by the Heat Operating Entities. Our other payables and accruals decreased by RMB458.4 million, or 82.5%, from RMB555.4 million as at 31 December 2017 to RMB97.0 million as at 31 December 2018 primarily due to a decrease in payables for acquisition of properties, plant and equipment of approximately RMB200.8 million and a decrease in amount due to related parties by approximately RMB195.0 million which was part of Other Retained Assets and Liabilities and not transferred to our Group. Our other payables and accruals further decreased by RMB21.8 million, or 22.5% from 97.0 million as at 31 December 2018 to RMB75.2 million as at March 2019, primarily due to a decrease in other tax payables of approximately RMB17.8 million as a result of a decrease in revenue recognized from construction services during the typical low season in the first quarter.

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The following table sets out our other payables and accruals as at the dates indicated.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for acquisition of properties, plant and equipment	245,621	240,513	39,699	33,723
Deposits	18,134	25,415	760	720
Other tax payables	5,772	18,835	23,706	5,892
Salary, bonus and staff welfare benefits payable	18,982	18,123	16,985	10,636
Due to related parties ⁽¹⁾	–	198,592	3,553	3,372
Others	54,452	53,874	12,323	20,878
	<u>342,961</u>	<u>555,352</u>	<u>97,026</u>	<u>75,221</u>

Note:

- (1) The amounts due to related parties consist of were non-trade in nature, unsecured and interest-free and will be settled by cash prior to the Listing.

Contract liabilities (current)

Our contract liabilities (current) include advances received from customers in relation to the provision and distribution of heat as we generally receive payment from end- users before the heat supply period, pipeline connection service and construction and maintenance services. As at 31 December 2016, 2017 and 2018 and 31 March 2019, our contract liabilities (current) were approximately RMB600.1 million, RMB656.7 million, RMB609.2 million and RMB120.1 million, respectively. Our contract liabilities (current) increased by RMB56.6 million, or 9.4%, from RMB600.1 million as at 31 December 2016 to RMB656.7 million as at 31 December 2017, primarily due to an increase in our advances received from heat supply end-users. Our contract liabilities (current) decreased by RMB47.5 million, or 7.2%, from RMB656.7 million as at 31 December 2017 to RMB609.2 million as at 31 December 2018, primarily due to certain advances received from heat supply end-users which are part of the Other Retained Assets and Liabilities and not transferred to our Group. Our contract liabilities (current) further decreased by approximately RMB489.1 million, or 80.3%, from approximately RMB609.2 million as at 31 December 2018 to approximately RMB120.1 million as at 31 March 2019, primarily due to realization of our performance obligation in the contract liabilities of provision and distribution of heat and heat transmission services.

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NON-CURRENT ASSETS AND LIABILITIES

Our non-current assets primarily consist of property, plant and equipment, investment properties, right-of-use assets, intangible assets, deferred tax assets and investment in a joint venture. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had non-current assets of approximately RMB1,250.2 million, RMB1,366.9 million, RMB1,028.5 million and RMB1,010.1 million, respectively.

Our non-current liabilities primarily consist of interest-bearing bank and other borrowings, early retirement and supplemental benefit obligations, contract liabilities and deferred income. As at 31 December 2016, 2017 and 2018 and 31 March 2019, we had non-current liabilities of approximately RMB666.5 million, RMB714.8 million, RMB535.4 million and RMB521.5 million, respectively.

CAPITAL EXPENDITURES

Our capital expenditure is mainly relevant to purchase of property, plant and equipment, right-of-use assets, investment properties, intangible assets and long-term prepaid expenses.

The following table sets out our capital expenditure for the periods indicated.

	For the year ended 31 December			For the three months ended 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	216,476	222,887	219,176	12,196
Others ⁽¹⁾	<u>35,551</u>	<u>12,966</u>	<u>553</u>	<u>89</u>
Total	<u>252,027</u>	<u>235,853</u>	<u>219,729</u>	<u>12,285</u>

Note:

- (1) Others included right-of-use assets, investment properties, intangible assets and long-term prepaid expenses.

Capital expenditure for property, plant and equipment were mainly for the construction of primary distribution pipelines connecting to No. 5 Cogeneration Plant, integrated heat distribution network and smart heating network system. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the carrying amount of our property, plant and equipment was

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approximately RMB1,155.3 million, RMB1,269.7 million, RMB929.8 million and RMB913.1 million, respectively. For the same periods, purchases of property, plant and equipment were approximately RMB216.5 million, RMB222.9 million, RMB219.2 million and RMB12.2 million, respectively.

We expect that our capital expenditures for the years ending 31 December 2019 and 2020 will be approximately RMB46.5 million and RMB106.1 million, respectively, which will be primarily used for construction of new primary distribution pipelines and enhancing our smart heating network system. Our Group's major capital expenditure and future development will be financed by proceeds from the Global Offering and internal resources which include but not limited to our Group's prevailing available cash and cash equivalents, anticipated cash from operations and bank loans.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital Commitment

As at 31 December 2016, 2017 and 2018 and 31 March 2019, we incurred capital commitment (contracted, but not provided for) in the amount of approximately RMB197.8 million, RMB195.3 million, RMB20.5 million and RMB10.1 million, respectively, in relation to the purchase of intangible assets and property, plant and equipment.

The following table sets out our capital commitments as at the dates indicated.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for	<u>197,774</u>	<u>195,294</u>	<u>20,467</u>	<u>10,107</u>

Operating Lease Arrangements

As at 31 December 2016, 2017 and 2018 and 31 March 2019, our operating lease arrangement as lessor were approximately RMB1.0 million, RMB1.9 million, RMB1.4 million and RMB1.3 million, respectively, primarily in relation to our investment properties under operating lease arrangements.

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The following table sets out our operating lease arrangement (as lessor) as at the dates indicated.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	569	404	213	168
After one year and within five years	460	556	400	400
After five years	—	958	759	733
	<u>1,029</u>	<u>1,918</u>	<u>1,372</u>	<u>1,301</u>

CONTINGENT LIABILITIES

As at 31 March 2019, we had no material contingent liabilities. Our Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving our Group. If our Group was involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. We confirm that there had not been any material change in the level of our contingent liabilities since 31 March 2019.

WORKING CAPITAL CONFIRMATION

Our future cash requirements will depend on many factors, including our operating income, market acceptance of our services or other changing business conditions and future developments, including any potential investments or acquisitions we may decide to pursue. Heat supply is a basic necessity for the livelihood and work conditions of the residents in Northeast China and thus we believe that our operating income generated from heat supply business and heat-related construction, maintenance and design services will remain stable. In addition, we have implemented a heat fee policy which requires heat supply end-users to make full payment of the annual heat supply bills for the entire heat supply period on or before the first day of heat supply period (with the exception of a limited number of large end-users such as governmental institutions and universities). Accordingly, we anticipate that net cash generated from operating activities will improve going forward.

Our Directors confirm that, taking into account of our current cash and cash equivalents, anticipated cash flow from operations, proceeds from the Global Offering and banking facilities available to us, we will have sufficient working capital to meet our anticipated cash needs, including our working capital and capital expenditures requirements for at least the next 12 months from the date of this prospectus.

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After due consideration and discussion with our management and based on the above, the Sole Sponsor has no reason to believe that we cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

KEY FINANCIAL RATIOS

The following table sets out certain key financial ratios for the periods indicated.

	As at or for the year ended 31 December			As at or for the three months ended 31 March
	2016	2017	2018	2019
Current ratio ⁽¹⁾	0.9	0.8	1.0	1.3
Quick ratio ⁽²⁾	0.9	0.8	1.0	1.2
Return on total assets ⁽³⁾	3.2%	3.3%	4.2%	6.6% ⁽⁸⁾
Return on equity ⁽⁴⁾	19.0%	23.3%	25.8%	22.7% ⁽⁸⁾
Gearing ratio ⁽⁵⁾	0.5	0.9	0.2	0.2
Net debt to equity ratio ⁽⁶⁾	Net cash	Net cash	Net cash	Net cash
Net profit margin ⁽⁷⁾	8.6%	7.7%	7.1%	23.4%

Notes:

- (1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year/period.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the year/period.
- (3) Return on total asset is calculated by dividing profit for the year/period by average total assets.
- (4) Return on equity is calculated by dividing profit attributable to owners of our Company for the year/period by average total equity attributable to owners of our Company.
- (5) Gearing ratio is calculated by dividing total debt by total equity as at the end of the relevant year/period.
- (6) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year/period. Net debt is calculated as total debt less cash and cash equivalents as at the end of the year/period.
- (7) Net profit margin is equal to net profit divided by total revenue for the year/period.
- (8) Actual percentage of the return for the financial period without taking into account of annualization due to the seasonality of our business.

Current Ratio

Our current ratio was 0.9, 0.8, 1.0 and 1.3 as at 31 December 2016 and 2017 and 2018 and as at 31 March 2019, respectively. The decrease from 31 December 2016 to 31 December 2017 was primarily due to the increase in total current liabilities in connection with the

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increases in other payables and accruals and loans to related parties of approximately RMB198.6 million in 2017. The increase from 31 December 2017 to 31 December 2018 was primarily due to the decrease in total current liabilities in connection with the significant decrease in other payables and accruals by approximately RMB458.3 million. Our current ratio increased to 1.3 as at 31 March 2019, primarily due to the decrease in total current liabilities resulting from the decrease in contract liabilities, trade payables and other payables and accruals by approximately RMB489.1 million, RMB125.5 million and RMB21.8 million, respectively which was partially offset by the increase in tax payable by approximately RMB13.7 million.

Quick Ratio

Our quick ratio was 0.9, 0.8, 1.0 and 1.2 as at 31 December 2016 and 2017 and 2018 and as at 31 March 2019, respectively. The movements in the quick ratios were due to the same reasons discussed in current ratios above.

Return on Total Assets

Our return on total assets was 3.2%, 3.3%, 4.2% in 2016 and 2017 and 2018 respectively. The increases in return on total assets of our Group were mainly attributable to the increase in profit during the Track Record Period as discussed above. Our return on total assets was 6.6% for the three months ended 31 March 2019, mainly due to the significant amount of net profit recognized during the heat supply period.

Return on Equity

Our return on equity was 19.0%, 23.3%, 25.8% in 2016 and 2017 and 2018, respectively. The increase from 2016 to 2017 was primarily due to the increase in net profit together with the decrease in total equity, which was mainly due to the deemed distributions of approximately RMB239.8 million, while the increase from 2017 to 2018 was primarily due to the increase in net profit and partially offset by the increase in total equity, which was mainly due to the capital injection from a shareholder. Our return on equity was 22.7% for the three months ended 31 March 2019, primarily due to the significant amount of net profit recognized during the heat supply period.

Gearing Ratio

Our gearing ratio was 0.5, 0.9, 0.2 and 0.2 for the years ended 31 December 2016 and 2017 and 2018 and the three months ended 31 March 2019, respectively. The increase from 2016 to 2017 was primarily due to the decrease in total equity which was primarily due to the deemed distributions while the decrease from 2017 to 2018 was primarily due to the repayment of interest-bearing bank and other borrowings together with the increase in total equity as discussed above. The gearing ratio remained the same for the three months ended 31 March 2019.

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Net Profit Margin

Our net profit margin was 8.6%, 7.7%, 7.1% and 23.4% for the years ended 31 December 2016 and 2017 and 2018 and the three months ended 31 March 2019, respectively. The fluctuations were primarily attributable to the reasons discussed above.

RELATED PARTY TRANSACTIONS

	Year ended 31 December			For the three months ended 31 March 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of services				
Associates of the Shareholder				
– Datang Changre Jilin Heating Co., Ltd.	–	51,351	–	–
Joint venture of our Company				
– FAW Sihuan and its subsidiaries	4,183	1,533	986	–
Fellow subsidiaries				
– Jilin Province Changre Property Limited	–	65	46	–
– Jilin Province Heating Group Limited	–	–	8,226	–
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	–	–	–	591
The Shareholder				
– Changchun Heating Group	263	2,155	39,311	7,436
	<u>4,446</u>	<u>55,104</u>	<u>48,569</u>	<u>8,027</u>
Purchases of products				
Associates of the Shareholder				
– Jilin Province New Model Pipes Co., Ltd.	–	8,976	16,520	309
– Jilin Heating Intelligent Equipment Co., Ltd.	–	2,383	8,013	3,176
Joint venture of our Company				
– Jilin Hengxin Electricity Co., Ltd., a subsidiary of FAW Sihuan	–	–	1,253	–
	<u>–</u>	<u>11,359</u>	<u>25,786</u>	<u>3,485</u>

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During the Track Record Period, apart from the above related party transactions which were primarily construction, maintenance and design services and purchases of goods, we also had sales of goods as well as rental transactions with certain related parties. Our Directors confirm that these transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions and on an arm's-length basis. Our Directors have further confirmed that these related party transactions would not distort our results of operations of the Track Record Period or make our historical results not reflective of our future performance. For more information on related party transactions, please refer to Note 36 to the financial statements included in the Accountants' Report in Appendix I to this prospectus.

Amounts due from/to related parties and the Shareholder

Save as otherwise specified below, all receivables and payables due from/to related parties and the Shareholder were unsecured and interest-free. The following table sets out our amounts due from/to related parties and the Shareholder (i.e. Changchun Heating Group) as at the date indicated.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade-related				
Trade receivables due from				
Fellow subsidiaries	–	13	1,203	1,054
The Shareholder – Changchun Heating Group	–	–	39,466	24,973
Joint ventures of our Company	1,452	1,923	468	468
	<u>1,452</u>	<u>1,936</u>	<u>41,137</u>	<u>26,495</u>
Contract assets due from				
Fellow subsidiaries	–	–	7,916	7,956
Joint venture of our Company	–	–	66	66
The Shareholder – Changchun Heating Group	–	–	4,728	12,702
	<u>–</u>	<u>–</u>	<u>12,710</u>	<u>20,724</u>

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	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Prepayments due from:				
Fellow subsidiaries	—	—	800	800
	—	—	800	800
Trade payable due to				
Associates of the Shareholder	—	8,627	20,898	14,519
The Shareholder – Changchun Heating Group	—	—	818	908
Joint venture of our Company	—	—	1,454	1,430
	—	8,627	23,170	16,857
Non-trade related				
Other receivables due from				
Fellow subsidiaries	4,674	7,120	4,422	4,481
The Shareholder – Changchun Heating Group	10,855	20,462	4,152	28,625
Associates of the Shareholder	—	78,302	—	—
	15,529	105,884	8,574	33,106
Other payables due to				
Fellow subsidiaries	—	198,592	—	—
Associates of the Shareholder	—	—	1,081	1,081
The Shareholder – Changchun Heating Group	—	—	2,472	2,291
	—	198,592	3,553	3,372
Other borrowings due to:				
An associate of the Shareholder ⁽¹⁾	—	103,000	103,000	103,000
A fellow subsidiary ⁽¹⁾	—	—	5,000	—
	—	103,000	108,000	103,000

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Notes:

- (1) The other borrowings from the associate of the Shareholder (i.e. Changchun Heating Group) were secured and with an effective interest rate ranging from 10% to 12% per annum. The other borrowings from the fellow subsidiary were unsecured and interest-free. These borrowings will mature in 2019 and will be settled by cash prior to the Listing.
- (2) Please refer to “Appendix I – Accountants’ Report – 36. Related Party Transactions” for the breakdown of the entries and identities of the related parties and the Shareholder (i.e. Changchun Heating Group).
- (3) All amounts due from and due to the related parties and the Shareholder (i.e. Changchun Heating Group) which are non-trade in nature will be settled by cash prior to the Listing.

OFF-BALANCE SHEET TRANSACTIONS

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit supports to us or engages us in leasing, hedging or other services with us. As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks in the ordinary course of business, including interest rate risk, foreign currency risk, credit risk and liquidity risk. We manage our exposure to these and other risks through regular operating and financial activities.

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our interest-bearing loans and bank borrowings. There is no significant impact on interest rate risk.

Foreign currency risk

We have transactional currency exposures. Such exposures arise from borrowings by operating units in currencies other than the units’ functional currencies. The currency denominated of these operating units is basically EURO. There is no significant impact on foreign currency risk.

Credit risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, we do not offer credit terms without the specific approval of the management.

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Liquidity risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of our financial liabilities and financial assets (e.g., trade receivables) and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of loans and bank borrowings.

The maturity profile of our financial liabilities as at the end of each of the Track Record Periods, based on the contractual undiscounted payments, is as follows:

As at 31 December 2016

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	240,891	–	–	240,891
Other payables and accruals	–	318,207	–	–	318,207
Interest-bearing bank and other borrowings	60,000	83,468	66,474	54,003	263,945
Lease liabilities	465	–	–	–	465
	<u>60,465</u>	<u>642,566</u>	<u>66,474</u>	<u>54,003</u>	<u>823,508</u>

As at 31 December 2017

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	238,276	–	–	238,276
Other payables and accruals	–	518,394	–	–	518,394
Interest-bearing loans and bank borrowings	100,000	19,860	132,361	48,788	301,009
	<u>100,000</u>	<u>776,530</u>	<u>132,361</u>	<u>48,788</u>	<u>1,057,679</u>

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As at 31 December 2018

	On demand <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	–	320,814	–	–	320,814
Other payables and accruals	–	56,335	–	–	56,335
Interest-bearing loans and bank borrowings	–	115,477	–	–	115,477
Lease liabilities	–	1,535	2,493	–	4,028
	–	494,161	2,493	–	496,654

As at 31 March 2019

	On demand <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	–	195,296	–	–	195,296
Other payables and accruals	–	58,693	–	–	58,693
Interest-bearing loans and bank borrowings	–	107,929	–	–	107,929
Lease liabilities	–	1,493	2,127	–	3,620
	–	363,411	2,127	–	365,538

Capital management

The primary objective of our capital management is to ensure that we maintain strong credit rating and healthy capital ratios in order to support our business and maximize shareholders' value.

We manage our capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies and processes during the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019.

During the Track Record Period, our strategy was to maintain the net debt to total equity and net debt ratio at a healthy capital level in order to support our business. The principal strategies adopted by us include, but not limited to, reviewing future cash flow requirements

FINANCIAL INFORMATION

and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that we have a reasonable level of capital to support our business.

The net cash at the end of each of the Track Record Period were as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	746,809	481,654	358,884	197,749
Less: Interest-bearing bank and other borrowings	(243,647)	(266,521)	(108,000)	(103,000)
Net cash	<u>503,162</u>	<u>215,133</u>	<u>250,884</u>	<u>94,749</u>

DIVIDEND POLICY

During the Track Record Period, our Company did not declare or distribute any dividend. We currently do not have any pre-determined dividend payout ratio. In order to return capital to our Shareholders in line with our growth when it is appropriate to do so, we intend to adopt a general dividend policy of declaring and paying dividends with reference to dividends declared and paid by heating supply companies, our results of operations, cash flows, financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRSs (whichever is lower) and other factors that our Directors may consider relevant. We also intend to adopt in such general dividend policy a dividend payout ratio of no less than 30% of our annual distributable net profit provided that the aforesaid factors are properly taken into consideration. We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be decided by our Board at their discretion and will be subject to Shareholders' approval. In addition, our dividend policy will also be subject to our Articles of Association, the PRC Company Law, any other applicable PRC law and regulations. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocation to the statutory common reserve fund an amount of no less than 10% of our profit after tax, as determined under PRC GAAP; and
- allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

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The minimum allocation to the statutory common reserve fund is 10% of our profit after tax, as determined under PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to this statutory common reserve fund will be required. In accordance with our Articles of Association, after completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRSs, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years. There is, however, no assurance that we will be able to declare dividends of such an amount or any amount each year or in any year.

DISTRIBUTABLE RESERVES

As at 31 March 2019, our Company had reserves available for distribution to our equity holders amounted to approximately RMB186.9 million.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table of our unaudited pro forma adjusted consolidated net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on our net tangible assets as at 31 March 2019 as if it had taken place on that date. The table of unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our net tangible assets had the Global Offering been completed as at 31 March 2019 or at any future date.

The unaudited pro forma adjusted consolidated net tangible assets set out below are calculated based on our consolidated net assets attributable to owners of our Company as at 31 March 2019, as shown in the Accountants' Report, the text of which is included in Appendix I to this prospectus, and is adjusted as described below:

	Consolidated net tangible assets attributable to owners of our Company as at 31 March 2019 ⁽¹⁾ RMB'000	Estimated net proceeds from the Global Offering ⁽²⁾ RMB'000	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾⁽⁵⁾ RMB HK\$	
Based on the Offer Price of HK\$1.90 per Offer Share	626,865	147,721	774,586	1.66	1.84
Based on the Offer Price of HK\$2.50 per Offer Share	626,865	209,446	836,311	1.79	1.98

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Notes:

- (1) The consolidated net tangible assets attributable to the equity owners of our Company as at 31 March 2019 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the consolidated net assets of our Group attributable to the equity owners of our Company as at 31 March 2019 of approximately RMB630.7 million with an adjustment for the intangible assets of RMB3.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.90 per Offer Share or HK\$2.50 per Offer Share, being the low-end price or high-end price after deduction of the estimated underwriting fees and other related expenses payable by our Company and takes no account of any Share which may fall to be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1.00 to RMB0.9042.
- (3) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of 466,700,000 Shares were in issue assuming that Global Offering has been completed as at 31 March 2019, excluding Shares which may be issued upon the exercise of the Over-allotment Options.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB0.9042. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa at that rate or at any other rates or at all.
- (5) No adjustment has been made to reflect any trading results or other transactions entered into by our Group subsequent to 31 March 2019.

LISTING EXPENSES

Our listing expenses mainly consist of the aggregate underwriting commissions and fees paid to the Sole Sponsor, the Hong Kong Stock Exchange listing fee, SFC transaction levy and the Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Listing and the Global Offering. Assuming an Offer Price of HK\$2.20 per Share (being the mid-point of the indicative offer price range stated in this prospectus excluding any discretionary bonus), listing expenses which are payable by us are estimated to amount in aggregate to be approximately RMB53.6 million. We incurred listing expenses during the Track Record Period in the amount of RMB19.3 million, all of which were capitalized under the relevant accounting standards. We expect to capitalize an additional RMB26.9 million of the estimated listing expenses for the year ending 31 December 2019 and following the Listing under the relevant accounting standards. In addition, we expect to charge approximately RMB7.4 million to our consolidated statements of profit or loss for the year ending 31 December 2019. The listing expenses are subject to adjustments based on the actual amount incurred or to be incurred.

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NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 March 2019 (being the date to which our Company's latest consolidated financial results were prepared, as set out in the Accountants' Report included as Appendix I to this prospectus) up to the date of the prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, except as otherwise disclosed in this prospectus, there had been no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

We strive to further solidify our position as the leading heat service provider in Jilin Province and intend to achieve this through our business strategies. For a detailed description of our future plans, please refer to the section headed “Business – Our Business Strategies” in this prospectus.

REASONS FOR LISTING

Our Directors believe that the Listing will provide us with the financial resources to better capture business opportunities and fulfil our external funding needs, especially in view of our business strategies and planning, including (i) further enhancing our smart heating network system and improving operational efficiency; (ii) continuing to strengthen our construction, maintenance and design services capabilities; and (iii) seeking potential opportunities in heat supply industry and strategically increasing our market share within and outside Jilin Province. For more information, please refer to the section headed “Business – Our Business Strategies” in this prospectus.

Our Directors also believe the Listing will further broaden our shareholder base and provide us with the flexibility to adjust our capital structure from time to time, through accessing a wider spectrum of fund raising venue, including debt and equity raising, and negotiating more favorable terms of financing from financial institutions as and when considered appropriate, which in turn will enable us to better withstand external risks and market fluctuations.

In addition, a public listing status is expected to enhance our corporate profile, brand recognition and market position, which would enhance our competitiveness in heat supply and construction, maintenance and design services industries. It would also help us improve our corporate governance and attract and retain quality talents to support our future business development.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$197.5 million (assuming an Offer Price of HK\$2.20 per H share, being the mid-point of the Offer Price range stated in this prospectus) (equivalent to approximately RMB178.6 million), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering excluding any discretionary bonus, and assuming no exercise of the Over-allotment Option.

FUTURE PLANS AND USE OF PROCEEDS

Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

- approximately HK\$80.5 million (equivalent to approximately RMB72.8 million), representing approximately 41.0% of the net proceeds from the Global Offering, will be used for further increasing the level of automation in our heat supply business in the next three years by enhancing our smart heating network system to achieve a more stable, efficient and technologically advanced heat supply. Most of the net proceeds earmarked for this category will be used for upgrading of our system, purchasing relevant equipment and sensors and installation of the same in the heat exchange stations and end-users' properties. We expect to incur approximately RMB2.6 million, RMB11.4 million and RMB14.9 million of depreciation expenses in connection with the upgrading of our system for the years ending 31 December 2020, 2021 and 2022, respectively.

The table below summarizes our plan of the upgrade, the additional features and expected benefits that will result from the system upgrade:

Implementation steps	Additional features and expected benefits after the upgrade
Install flow-limit devices at the end of our primary distribution network and in our heat exchange stations.	The system will be able to set the maximum limit of the water flow. It is expected to have more control at the end of primary distribution network and thus increase the reliability and adjustability of our heat supply.
Install flow-balance devices, water temperature sensors and electrical valves in more households.	The system will be able to gather water flow and temperature data from more households. It is expected to balance the heat supply among the households to further improve the accuracy of heat supply and save energy.
Install flow-balance controllers, water temperature sensors and electrical valves to each residential building.	The system will be able to adjust and balance the heat supply among different residential buildings, thus reducing the water loss which was used to adjust the imbalance of heat supply before the upgrade.
Upgrade the control systems in the non-residential buildings.	The system will be able to remotely activate or suspend the heat supply according to the busy or non-busy hours for the commercial buildings to improve the accuracy of heat supply and save energy.
Upgrade the circulation pumps to a more suitable size and mode.	These circulation pumps will be operated at their most efficient operational level to save more energy.

FUTURE PLANS AND USE OF PROCEEDS

We believe the enhanced system will further improve energy saving and accuracy and reduce our headcount which may in turn increase our profitability. Please refer to the section headed “Business – Our Business Strategies – Further enhance our smart heating network system and improve operational efficiency” in this prospectus for details.

- approximately HK\$80.5 million (equivalent to approximately RMB72.8 million), representing approximately 41.0% of the net proceeds from the Global Offering, will be used for upgrading and replacement of existing primary distribution pipelines and heat supply facilities in the next three years to enhance operational efficiency of our heat distribution network.

The pipelines we plan to upgrade and replace are the primary distribution pipelines connecting to the No. 2 Cogeneration Plant which have served for over 20 years. The upgrade will involve replacing and upgrading approximately 8.9 kilometers of pipelines, and its affiliated devices. The cost of replacing the primary distribution pipelines and its affiliated devices ranged from approximately RMB1.4 million per kilometer to approximately RMB11.5 million per kilometer during the Track Record Period, depending primarily on the diameter of the pipelines. Generally, the cost is higher for pipeline of larger diameter. The expected cost of replacing the aforesaid distribution pipelines and its affiliated devices is approximately RMB9.9 million per kilometer on average. The cost is calculated as the total capital expenditure and expenses divided by the length of the replaced pipelines, while the total capital expenditure and expenses mainly include the construction, installation, material cost and other work for replacing the pipelines and its affiliated valves and compensators.

- approximately HK\$26.9 million (equivalent to approximately RMB24.3 million), representing approximately 13.0% of the net proceeds from the Global Offering, will be used in our heat service area expansion to grow our heat supply business in the next three years, including necessary construction of primary distribution pipelines and heat supply facilities required thereunder. A portion of net proceeds under this category is planned to be used for construction of primary distribution network in Mishazi County of Dehui City. For details, please refer to section headed “Relationship with our Controlling Shareholder – The Excluded Businesses and Reasons for Exclusion”.

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$9.6 million (equivalent to approximately RMB8.7 million), representing approximately 5.0% of the net proceeds from the Global Offering, will be used for potential acquisitions of heat service companies in the next three years to complement our existing heat supply operations. We plan to acquire one or two heat service companies which have a profit margin of not less than 10% with a payback period of five to eight years (not exceeding ten years in principle). We will prioritize the acquisition opportunities in and nearby Changchun over other cities in Jilin Province and the northern China. Please refer to the section headed “Business – Our Business Strategies – Proactively seek potential opportunities in heat supply industry and strategically increase our market share within and outside Jilin Province” in this prospectus for our other key selection criterion of suitable acquisition opportunities and other details. As at the Latest Practicable Date, we were not in negotiation with any specific acquisition targets and had not identified any such targets.

IMPLEMENTATION PLAN

We intend to apply the net proceeds from the Global Offering in accordance with the following implementation plan and the capital expenditure plan:

Implementation steps	Estimated capital expenditure and expenses for the years ending 31 December			Total estimated capital expenditure and expenses	Total estimated capital expenditure and expenses to be funded with the net proceeds from the Global Offering	
	2019	2020	2021		Global Offering	Approximate percentage of the net proceeds from the Global Offering
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 ⁽¹⁾	% ⁽²⁾
<u>Upgrade the smart heating network</u>						
Upgrade the primary distribution network (heat exchange stations)	– ⁽⁴⁾	3,600	2,400	6,000	6,000	3.4
Balance the heat supply among the households	– ⁽⁴⁾	15,000	–	15,000	15,000	8.4
Balance the heat supply among the residential buildings	– ⁽⁴⁾	20,000	20,000	40,000	40,000	22.5
Upgrade the control systems	– ⁽⁴⁾	6,000	–	6,000	6,000	3.4
Upgrade the circulation pumps	– ⁽⁴⁾	5,000	–	5,000	5,000	2.8
Others ⁽³⁾	3,133	9,400	3,133	15,667	800	0.5
Sub-total	3,133	59,000	25,533	87,667	72,800	41.0

FUTURE PLANS AND USE OF PROCEEDS

Implementation steps	Estimated capital expenditure and expenses for the			Total estimated capital expenditure and	Total estimated capital expenditure and	Approximate percentage of the
	years ending 31 December			expenditure and	net proceeds	net proceeds
	2019	2020	2021	expenses	from the	from the
	RMB'000	RMB'000	RMB'000	RMB'000	Global Offering RMB'000 ⁽¹⁾	Global Offering % ⁽²⁾
<u>Replace pipelines and facilities</u>						
Replace valves	– ⁽⁴⁾	1,422	1,458	2,880	2,880	1.6
Replace compensators	– ⁽⁴⁾	3,360	2,940	6,300	6,300	3.6
Replace pipelines	– ⁽⁴⁾	31,541	31,499	63,040	63,040	35.5
Others ⁽³⁾	1,814	11,036	3,214	16,064	580	0.3
Sub-total	1,814	47,359	39,111	88,284	72,800	41.0
<u>Expand service area</u>	– ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾	30,094	24,300	13.0
<u>Acquisitions</u>	– ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾	48,400	8,700	5.0
Total				278,745	178,600	100.0

Notes:

- (1) The shortfall amount of the total estimated capital expenditure and expenses will be funded by our internal financial resources.
- (2) Percentage of the net proceeds from the Global Offering is calculated assuming (i) the Offer Price of HK\$2.20 per H Share, being the mid-point of the Offer Price range stated in this prospectus; and (ii) that the Over-allotment Option is not exercised.
- (3) Others mainly include the expenses on management of the contractor, project supervision, surveying, design, insurance, tendering, pilot-trial, engineering consultation and environmental impact evaluation.
- (4) Since the construction and installation work of the upgrade can only be implemented outside the heat supply period from October to the following April each year, we will only conduct other preparation works which mainly include tendering, surveying, design, pilot-trial, engineering consultation and environmental impact evaluation in 2019.
- (5) We have a total estimated capital expenditure and expenses allocated to acquisitions and expanding service area for the years ended 31 December 2019, 2020 and 2021, but we have not made specific yearly allocation plan for them.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is fixed at HK\$2.50 per H Share, being the high-end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be increased by approximately HK\$34.1 million. If the Offer Price is fixed at HK\$1.90 per H Share, being the low-end of the Offer Price range stated in this prospectus and assuming no exercise of the Over-allotment Option, the net proceeds will be reduced by approximately HK\$34.1 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis accordingly.

The additional net proceeds that we would receive if the Over-allotment Option is exercised in full would be (i) HK\$42.7 million (assuming an Offer Price of HK\$2.50 per H Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$37.5 million (assuming an Offer Price of HK\$2.20 per H Share, being the mid-point of the Offer Price range stated in this prospectus), and (iii) HK\$32.4 million (assuming an Offer Price of HK\$1.90 per H Share, being the low-end of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purpose accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, they will be placed in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments.

If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

As at the Latest Practicable Date, we have not identified any potential acquisition targets or entered into any definitive agreement with any party to acquire any business or entity.

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HONG KONG UNDERWRITERS

BOCI Asia Limited
I Win Securities Limited
Sinomax Securities Limited

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This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company, the Sole Global Coordinator and the Underwriters, the Global Offering will not proceed and will lapse. The Global Offering comprises the Hong Kong Public Offering of initially 11,670,000 Hong Kong Public Offer Shares and the International Offering of initially 105,030,000 International Offer Shares, subject in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 26 September 2019. Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to, among other matters, (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering on the Main Board of the Hong Kong Stock Exchange (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator and the Hong Kong Underwriters and us agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally (and not jointly or jointly and severally) to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

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The Hong Kong Underwriting Agreement is conditional on the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by notice (orally or in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (1) There shall develop, occur, exist or come into force:
- (a) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed), destruction of power plant) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to any member of our Group (the “Relevant Jurisdictions”); or
 - (b) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting any of the Relevant Jurisdictions; or
 - (c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (d) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European Union (or any member

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thereof), Japan, Singapore or any other jurisdiction relevant to any member of our Group, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

- (e) any new Law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation, implementation or application by any court or other competent authority of) existing Laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- (f) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or on, any of the Relevant Jurisdictions; or
- (g) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (h) any litigation, arbitration or claim being threatened or instigated against any member of our Group, any Director, any Supervisor or our Controlling Shareholder; or
- (i) any contravention by any member of our Group, any Director or any Supervisor of the Companies Ordinance, PRC Company Law, the Listing Rules or Laws (as defined in the Hong Kong Underwriting Agreement); or
- (j) a Director, Supervisor or member of the senior management of our Company being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (k) the chairman or vice chairman of our Company vacating his or her office; or
- (l) an authority or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director, any Supervisor or our Controlling Shareholder; or
- (m) a contravention by any member of our Group of the Listing Rules or applicable Laws (as defined in the Hong Kong Underwriting Agreement); or
- (n) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the H Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or

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- (o) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws (as defined in the Hong Kong Underwriting Agreement); or
- (p) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the H Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or
- (q) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator:

- (A) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
 - (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
 - (C) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
 - (D) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (2) there has come to the notice of the Sole Global Coordinator:
- (a) that any statement contained in any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was

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issued, or has become, untrue, incorrect in any material respect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or

- (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (c) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (d) any event, act or omission which gives or is likely to give rise to any liability of our Company and/or our Controlling Shareholder pursuant to the indemnities given by our Company and/or our Controlling Shareholder under the Hong Kong Underwriting Agreement; or
- (e) any expert, whose consent is required for the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the withdrawal or consent by the Sole Sponsor without a reason); or
- (f) any material adverse change, or any development involving a prospective material adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or
- (g) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties contained in the Hong Kong Underwriting Agreement; or
- (h) that approval by the Listing Committee of the listing of, and permission to deal in, the H Shares to be issued or sold (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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- (i) a withdrawal by our Company of this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules

(1) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Hong Kong Stock Exchange that no further Domestic Shares, H Shares or other securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement or arrangement to such issue within six months from the Listing Date (whether or not such issue of Domestic Shares, H Shares or such other securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering, the Over-allotment Option or under any of the circumstances provided under Rule 10.08 of the Listing Rules.

(2) Undertakings by our Controlling Shareholder

Pursuant to Rule 10.07 of the Listing Rules, our Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to our Company that it will not and will procure that the relevant registered holder(s) (if any) of the Domestic Shares in which it has beneficial interest will not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities in respect of which we are shown in this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in the immediately preceding paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

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Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to our Company that, within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, it will:

- (a) when it pledges or charges any of our Company's securities beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged shares will be disposed of, immediately inform our Company of such indications.

We will also, as soon as we have been informed of the above matters (if any) by our Controlling Shareholder, inform the Hong Kong Stock Exchange and disclose such matters as soon as possible by way of an announcement to be published as required under the Listing Rules.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Our Company has undertaken to each of, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Hong Kong Underwriters that, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time during the First Six-Month Period, our Company will not, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Sole Bookrunner and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any Shares, or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts); or

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- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to or agree to announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above;

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period). In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Our Controlling Shareholder undertakes to each of Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Hong Kong Underwriters to procure our Company to comply with the above undertakings.

Undertakings by our Controlling Shareholder

Pursuant to the Hong Kong Underwriting Agreement, our Controlling Shareholder has undertaken to our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor and unless in compliance with the requirements of the Listing Rules:

- (a) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein

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(including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the transaction in respect of such Shares or other securities will be completed within the First Six-Month Period);

- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Indemnity

Each of our Company and our Controlling Shareholder has agreed to jointly and severally indemnify, among others, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Hong Kong Underwriters and each of their respective affiliates and delegates, as well as their directors, officers, employees, agents for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company and our Controlling Shareholder of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters’ Interests in our Company

As at the Latest Practicable Date and save as disclosed in this prospectus and other than pursuant to the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters was interested, directly or indirectly, in any shares or securities in any member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

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International Offering

International Underwriting Agreement

In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with the Sole Global Coordinator and the International Underwriters. Under the International Underwriting Agreement and subject to the Over-allotment Option being exercised, the International Underwriters or their respective affiliates would, subject to certain conditions set out therein, severally agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that upon the entering into the International Underwriting Agreement, the International Offering will be fully underwritten. It is also expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the Sole Global Coordinator and the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to offer up to an aggregate of 17,500,000 H Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price of the Hong Kong Public Offer Shares, out of which they will pay any sub-underwriting commission. Our Company may, in addition, pay incentive fee at our Company's sole discretion.

For any unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the Sole Bookrunner and the relevant International Underwriters.

The Sole Sponsor will receive sponsor fee. The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to amount in aggregate to

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approximately HK\$59.2 million (assuming an Offer Price of HK\$2.20 per Offer Share (which is the mid-point of the indicative Offer Price range, the Over-allotment Option is not exercised and excluding the discretionary incentive fee), are payable and borne by our Company.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

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It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to our Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of initially 11,670,000 H Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in the paragraph headed “– The Hong Kong Public Offering” below in this section; and
- (ii) the International Offering of an aggregate of 105,030,000 H Shares (subject to adjustment and the Over-allotment Option as defined below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in accordance with Regulation S, as described in the paragraph headed “– The International Offering” below in this section.

Investors may either:

- (i) apply for Hong Kong Public Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The Offer Shares will represent approximately 25.00% of the issued share capital of our Company immediately following the completion of the Global Offering, assuming no exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.72% of the issued share capital of our Company immediately following the completion of the Global Offering.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 11,670,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. The number of H Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 2.50% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option).

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed “– Conditions of the Global Offering” below in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

For allocation purposes only, the total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally into two pools: pool A (5,835,000 Offer Shares) and pool B (5,835,000 Offer Shares). The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of more than HK\$5.0 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Public Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 5,835,000 Hong Kong Public Offer Shares (being 50% of the 11,670,000 Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- 11,670,000 Offer Shares available in the Hong Kong Public Offering, representing 10% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, and provided that the International Offering is not undersubscribed, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 35,010,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, and provided that the International Offering is not undersubscribed, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 46,680,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, and provided that the International Offering is not undersubscribed, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 58,350,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator and the Sole Sponsor deem appropriate. In addition, the Sole Global Coordinator and the Sole Sponsor may reallocate Offer Shares from the International Offering to the Hong

STRUCTURE OF THE GLOBAL OFFERING

Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. However, according to Guidance Letter HKEx-GL91-18 issued by the Hong Kong Stock Exchange, if such reallocation is done in the circumstance that (i) the International Offering is undersubscribed; or (ii) when the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is oversubscribed by less than 15 times, the total number of Offer Shares available under the Hong Kong Public Offering following such reallocation shall be not more than 23,340,000 Offer Shares (representing two times the number of Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering) and the final Offer Price shall be fixed at the bottom end of the Offer Price range stated in this prospectus.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator and the Sole Sponsor have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is breached and/or untrue (as the case may be) or if it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$2.50 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$6,312.98 for one board lot of 2,500 H Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed “– Pricing and Allocation” below in this section, is less than the maximum Offer Price of HK\$2.50 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The International Offering will consist of an offering of initially 105,030,000 H Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “– Pricing and Allocation” below in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares, after the Listing. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “– The Hong Kong Public Offering – Reallocation” above in this section, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

However, if neither the Hong Kong Public Offering nor the International Offering is fully subscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to offer up to an aggregate of 17,500,000

STRUCTURE OF THE GLOBAL OFFERING

H Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among others, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offer Shares to be offered pursuant thereto will represent approximately 3.61% of the issued share capital of our Company immediately following the completion of the Global Offering. The Sole Global Coordinator may also cover such over-allocations by purchasing H Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the initial public market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of our H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken: (i) will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and in what the Stabilizing Manager reasonably regards as the best interest of our Company; (ii) may be discontinued at any time; and (iii) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (iii) purchasing, or agreeing to purchase, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares, (v) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Stabilizing actions by the Stabilizing Manager, its affiliates or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the H Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it, and selling in the open market, may have an adverse impact on the market price of the H Shares;
- no stabilizing action can be taken to support the price of the H Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire 30 days after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO will be made within seven days of the expiration of the stabilization period.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Thursday, 17 October 2019 and, in any event, no later than Wednesday, 23 October 2019, by agreement between the Sole Global Coordinator, the Underwriters and our Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$2.50 per Offer Share and is expected to be not less than HK\$1.90 per Offer Share unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK\$2.50 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$6,312.98 for one board lot of 2,500 H Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, where they deem appropriate, based on the level of interest expressed by prospective investors and institutional investors during the book-building process in respect of the International Offering, and with the consent of our Company, reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Wen Wei Po (in Chinese) and on the website of our Company (www.cc-tp.com.cn) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until

STRUCTURE OF THE GLOBAL OFFERING

the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Public Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their application. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Public Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Public Offer Shares – Publication of Results” in this prospectus.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being executed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) on the Main Board of the Hong Kong Stock Exchange and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;
- (ii) the Offer Price having been duly agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters);
- (iii) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements;

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Wednesday, 23 October 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among others, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Wen Wei Po (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.cc-tp.com.cn on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Public Offer Shares – Despatch/Collection of H Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates issued in respect of the Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised at any time prior to 8:00 a.m. on the Listing Date.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option).

No part of our Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 24 October 2019, it is expected that dealings in the Offer Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, 24 October 2019.

The H Shares will be traded in board lots of 2,500 H Shares each and the stock code of the H Shares will be 1853.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(1) HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

(2) WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a director, supervisor or chief executive officer of our Company and/or any of its subsidiaries;
- an associate of any of the above;
- a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

(3) APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 27 September 2019 to 12:00 noon on Thursday, 17 October 2019 from:

- (i) any of the following offices of the Hong Kong Underwriters:

BOCI Asia Limited

26th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

I Win Securities Limited

Room 1916, Hong Kong Plaza
188 Connaught Road West
Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Sinomax Securities Limited

Room 2705-6, 27/F, Tower One, Lippo Centre
89 Queensway
Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong
Kowloon	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon
	Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road, Kowloon
New Territories	City One Sha Tin Branch	Shop Nos. 24-25, G/F, Fortune City One Plus, No. 2 Ngan Shing Street, Sha Tin, New Territories
	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long, New Territories
	Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 27 September 2019 until 12:00 noon on Thursday, 17 October 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CHUNCHENG HEATING PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, 27 September 2019 – 9:00 a.m. to 5:00 p.m.
- Saturday, 28 September 2019 – 9:00 a.m. to 1:00 p.m.

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- Monday, 30 September 2019 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 2 October 2019 – 9:00 a.m. to 5:00 p.m.
- Thursday, 3 October 2019 – 9:00 a.m. to 5:00 p.m.
- Friday, 4 October 2019 – 9:00 a.m. to 5:00 p.m.
- Saturday, 5 October 2019 – 9:00 a.m. to 1:00 p.m.
- Tuesday, 8 October 2019 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 9 October 2019 – 9:00 a.m. to 5:00 p.m.
- Thursday, 10 October 2019 – 9:00 a.m. to 5:00 p.m.
- Friday, 11 October 2019 – 9:00 a.m. to 5:00 p.m.
- Saturday, 12 October 2019 – 9:00 a.m. to 1:00 p.m.
- Monday, 14 October 2019 – 9:00 a.m. to 5:00 p.m.
- Tuesday, 15 October 2019 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 16 October 2019 – 9:00 a.m. to 5:00 p.m.
- Thursday, 17 October 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 17 October 2019, the last application day or such later time as described in the paragraph headed “– Effect of Bad Weather on the Opening of the Applications Lists” below in this section.

(4) TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

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- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Articles of Association, the Special Regulations and the PRC Company Law;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Relevant Persons and the H Share Registrar is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, the H Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company nor the Relevant Persons will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares (a) are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S and (b) not a U.S. person;

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- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the H Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

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(5) APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 27 September 2019 until 11:30 a.m. on Thursday, 17 October 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 17 October 2019 or such later time under the paragraph headed “– Effect of Bad Weather on the Opening of the Applications Lists” below in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to Sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Jilin Province Chun Cheng Heating Company Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

(6) APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;
 - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;

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- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement in this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this

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prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Special Regulations, the Articles of Association and the PRC Company Law;
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;
- agree with our Company, for itself and for the benefit of each shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of our Company and each Director, Supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

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- agree with our Company (for our Company itself and for the benefit of each shareholder of our Company) that H shares in our Company are freely transferable by their holders; and
- authorize our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of our Company.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,500 Hong Kong Public Offer Shares. Instructions for more than 2,500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

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Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Friday, 27 September 2019 – 9:00 a.m. to 8:30 p.m.
- Monday, 30 September 2019 – 8:00 a.m. to 8:30 p.m.
- Wednesday, 2 October 2019 – 8:00 a.m. to 8:30 p.m.
- Thursday, 3 October 2019 – 8:00 a.m. to 8:30 p.m.
- Friday, 4 October 2019 – 8:00 a.m. to 8:30 p.m.
- Saturday, 5 October 2019 – 8:00 a.m. to 1:00 p.m.
- Tuesday, 8 October 2019 – 8:00 a.m. to 8:30 p.m.
- Wednesday, 9 October 2019 – 8:00 a.m. to 8:30 p.m.
- Thursday, 10 October 2019 – 8:00 a.m. to 8:30 p.m.
- Friday, 11 October 2019 – 8:00 a.m. to 8:30 p.m.
- Saturday, 12 October 2019 – 8:00 a.m. to 1:00 p.m.
- Monday, 14 October 2019 – 8:00 a.m. to 8:30 p.m.
- Tuesday, 15 October 2019 – 8:00 a.m. to 8:30 p.m.
- Wednesday, 16 October 2019 – 8:00 a.m. to 8:30 p.m.
- Thursday, 17 October 2019 – 8:00 a.m. to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 27 September 2019 until 12:00 noon on Thursday, 17 October 2019 (24 hours daily, except on Thursday, 17 October 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 17 October 2019, the last application day or such later time as described in the section headed “– Effect of Bad Weather on the Opening of the Application Lists” below.

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No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the H Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

(7) WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application**

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instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 17 October 2019.

(8) HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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(9) HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for H Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,500 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Pricing and Allocation.”

(10) EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 17 October 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 17 October 2019 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

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(11) PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Wednesday, 23 October 2019 in South China Morning Post (in English) and Wen Wei Po (in Chinese) on our Company's website at www.cc-tp.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.cc-tp.com.cn and the Hong Kong Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, 23 October 2019;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 23 October 2019 to 12:00 midnight on Tuesday, 29 October 2019;
- by telephone enquiry line by calling 2862-8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 23 October 2019 to Saturday, 26 October 2019;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 23 October 2019 to Friday, 25 October 2019 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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(12) CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe(s) that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

(13) REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$2.50 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 23 October 2019.

(14) DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Wednesday, 23 October 2019. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Thursday, 24 October 2019 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 October 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 23 October 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 23 October 2019, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 23 October 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 23 October 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from 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, from 9:00 a.m. to 1:00 p.m. on Wednesday, 23 October 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 23 October 2019 by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 23 October 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed “– (11) Publication of Results” above in this section on Wednesday, 23 October 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 23 October 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 23 October 2019. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Jilin Province Chuncheng Heating Company Limited
BOCI Asia Limited

Dear Sirs,

We report on the historical financial information of Jilin Province Chuncheng Heating Company Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-94, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the three months ended 31 March 2019 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 March 2019, and the statements of financial position of the Company as at 31 December 2017 and 2018 and 31 March 2019 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-94 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 27 September 2019 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Hong Kong Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

DIRECTORS’ RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public

Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 March 2019, the financial position of the Company as at 31 December 2017 and 2018 and 31 March 2019 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three months ended 31 March 2018 and other explanatory information (the “Interim Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial

and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE HONG KONG STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

ADJUSTMENTS

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

DIVIDENDS

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

27 September 2019

I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

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

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

Consolidated statements of profit or loss

		Year ended 31 December			Three months ended	
	Notes	2016	2017	2018	31 March	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	7	848,431	1,108,373	1,440,159	495,392	548,894
Cost of sales	9	(727,557)	(920,365)	(1,215,485)	(368,985)	(373,072)
Gross profit		120,874	188,008	224,674	126,407	175,822
Other income and gains	7	46,784	52,148	20,955	2,264	2,928
Administrative expenses		(66,193)	(92,354)	(72,827)	(16,759)	(20,781)
Reversal of impairment/ (impairment) on financial and contract assets, net	9	5,937	(9,831)	(23,319)	3,080	12,537
Other expenses		(2,406)	(17,439)	(357)	–	(22)
Finance costs	8	(5,398)	(5,313)	(11,344)	(2,544)	(2,365)
Share of profits and losses of a joint venture	17	–	–	1,501	2,075	2,666
PROFIT BEFORE TAX	9	99,598	115,219	139,283	114,523	170,785
Income tax expense	12	(26,804)	(29,387)	(36,606)	(28,499)	(42,222)
PROFIT FOR THE YEAR/PERIOD		<u>72,794</u>	<u>85,832</u>	<u>102,677</u>	<u>86,024</u>	<u>128,563</u>
Attributable to:						
Owners of the Company		72,794	85,832	102,677	86,024	128,563
Non-controlling interests		–	–	–	–	–
		<u>72,794</u>	<u>85,832</u>	<u>102,677</u>	<u>86,024</u>	<u>128,563</u>
Earnings per share expressed in RMB	14					
Basic		<u>0.21</u>	<u>0.25</u>	<u>0.29</u>	<u>0.25</u>	<u>0.37</u>
Diluted		<u>0.21</u>	<u>0.25</u>	<u>0.29</u>	<u>0.25</u>	<u>0.37</u>

Consolidated statements of comprehensive income

	<i>Notes</i>	Year ended 31 December			Three months ended 31 March	
		2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i>
PROFIT FOR THE YEAR/PERIOD		<u>72,794</u>	<u>85,832</u>	<u>102,677</u>	<u>86,024</u>	<u>128,563</u>
OTHER COMPREHENSIVE INCOME						
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:						
Remeasurement of supplemental benefit obligations, net of tax	30	<u>442</u>	<u>2,425</u>	<u>(361)</u>	<u>(249)</u>	<u>(183)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX		<u>442</u>	<u>2,425</u>	<u>(361)</u>	<u>(249)</u>	<u>(183)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>73,236</u>	<u>88,257</u>	<u>102,316</u>	<u>85,775</u>	<u>128,380</u>
Attribute to:						
Owners of the Company		<u>73,236</u>	<u>88,257</u>	<u>102,316</u>	<u>85,775</u>	<u>128,380</u>
Non-controlling interests		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>73,236</u>	<u>88,257</u>	<u>102,316</u>	<u>85,775</u>	<u>128,380</u>

Consolidated statements of financial position

		As at 31 December			As at 31 March
	Notes	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	1,155,336	1,269,702	929,841	913,149
Investment properties		1,319	1,260	43	42
Intangible assets		406	4,020	3,872	3,831
Deferred tax assets	16	33,400	35,292	19,408	16,556
Investment in a joint venture	17	–	–	62,692	65,358
Right-of-use assets	18	32,906	29,857	3,829	3,543
Other non-current assets	19	26,864	26,778	8,775	7,630
TOTAL NON-CURRENT ASSETS		1,250,231	1,366,909	1,028,460	1,010,109
CURRENT ASSETS					
Inventories	20	42,342	48,144	11,369	29,670
Trade receivables	21	38,996	113,538	200,148	205,522
Contract assets	22	13,186	109,554	262,215	133,717
Prepayments and other receivables	23	153,093	308,254	335,316	90,197
Other current assets	24	47,710	66,330	19,867	36,312
Financial assets at fair value through profit or loss	25	–	162,013	–	–
Restricted bank deposits and time deposits with an initial term of over three months	26	203,703	703	–	–
Cash and cash equivalents	26	746,809	481,654	358,884	197,749
TOTAL CURRENT ASSETS		1,245,839	1,290,190	1,187,799	693,167
CURRENT LIABILITIES					
Trade payables	27	240,891	238,276	320,814	195,296
Other payables and accruals	28	342,961	555,352	97,026	75,221
Interest-bearing bank and other borrowings	29	140,094	107,021	108,000	103,000
Lease liabilities	18	465	–	1,493	1,535
Tax payable		56,920	87,364	39,020	52,754
Early retirement and supplemental benefit obligations	30	2,265	2,180	1,183	1,345
Contract liabilities	7	600,121	656,670	609,222	120,090
Deferred income	31	2,388	2,733	1,793	1,793
TOTAL CURRENT LIABILITIES		1,386,105	1,649,596	1,178,551	551,034
NET CURRENT (LIABILITIES)/ASSETS		(140,266)	(359,406)	9,248	142,133
TOTAL ASSETS LESS CURRENT LIABILITIES		1,109,965	1,007,503	1,037,708	1,152,242

		As at 31 December			As at 31 March
	Notes	2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	29	103,553	159,500	–	–
Lease liabilities	18	–	–	2,346	2,040
Early retirement and supplemental benefit obligations	30	27,774	24,783	10,571	10,850
Contract liabilities	7	514,704	506,759	500,943	487,568
Deferred income	31	20,456	23,732	21,532	21,088
TOTAL NON-CURRENT LIABILITIES		666,487	714,774	535,392	521,546
NET ASSETS		443,478	292,729	502,316	630,696
EQUITY					
Equity attributable to owners of the Company					
Share capital	33	–	–	350,000	350,000
Reserves	33	443,478	292,729	152,316	280,696
TOTAL EQUITY		443,478	292,729	502,316	630,696

Consolidated statements of changes in equity

For the year ended 31 December 2016

	<i>Notes</i>	Equity attributable to owners of the Company RMB'000	Total equity RMB'000
As at 1 January 2016		321,003	321,003
Profit for the year		72,794	72,794
Other comprehensive income			
– Remeasurement of employee benefit obligations		442	442
Total comprehensive income for the year		73,236	73,236
Contribution from the then shareholder	33(b)	51,500	51,500
Deemed distribution	33(b)	(2,000)	(2,000)
Dividends to the then shareholder	13	(261)	(261)
As at 31 December 2016		443,478	443,478

For the year ended 31 December 2017

	<i>Notes</i>	Equity attributable to owners of the Company RMB'000	Total equity RMB'000
As at 1 January 2017		443,478	443,478
Profit for the year		85,832	85,832
Other comprehensive income			
– Remeasurement of employee benefit obligations		2,425	2,425
Total comprehensive income for the year		88,257	88,257
Contribution from the then shareholder	33(b)	1,000	1,000
Deemed distributions	33(b)	(239,750)	(239,750)
Dividends to the then shareholder	13	(256)	(256)
As at 31 December 2017		292,729	292,729

For the year ended 31 December 2018

		Paid in capital RMB'000	Share capital RMB'000 Note 33(a)	Capital reserve* RMB'000 Note 33(a)	Safety fund* RMB'000	Other comprehensive income* RMB'000	Statutory reserve* RMB'000 Note 33(b)	Retained earnings* RMB'000	Equity attributable to owners of the Company RMB'000 Note 33	Total equity RMB'000
As at 31 December 2017		-	-	-	-	-	-	-	292,729	292,729
Profit for the year		-	-	-	-	-	-	102,677	-	102,677
Other comprehensive income										
– Remeasurement of employee benefit obligations		-	-	-	-	(361)	-	-	-	(361)
Total comprehensive income		-	-	-	-	(361)	-	102,677	-	102,316
Capital contributions upon Reorganization										
– Contribution of a joint venture	2.1	-	-	-	-	-	-	-	63,557	63,557
– Distribution to the Shareholder upon completion of the Reorganization	2.1	-	-	-	-	-	-	-	(34,286)	(34,286)
– Capitalization of new shares to the Shareholder from transfer of assets and liabilities in the Reorganization	33(a)	-	-	322,000	-	-	-	-	(322,000)	-
Capital injection from shareholders	33(a)	53,763	-	24,237	-	-	-	-	-	78,000
Shareholding reform	33(a)	(53,763)	350,000	(296,237)	-	-	-	-	-	-
Transfer to statutory reserve	33(b)	-	-	-	-	-	8,874	(8,874)	-	-
Appropriation and utilization of safety fund, net	33(b)	-	-	-	8,419	-	-	(8,419)	-	-
As at 31 December 2018		-	350,000	50,000	8,419	(361)	8,874	85,384	-	502,316

For the three months ended 31 March 2018 (Unaudited)

		Paid in capital RMB'000	Share capital RMB'000 Note 33(a)	Capital reserve RMB'000 Note 33(a)	Safety fund RMB'000	Other comprehensive income RMB'000	Statutory reserve RMB'000 Note 33(b)	Retained earnings RMB'000	Equity attributable to owners of the Company RMB'000 Note 33	Total equity RMB'000
As at 31 December 2017		-	-	-	-	-	-	-	292,729	292,729
Profit for the period		-	-	-	-	-	-	86,024	-	86,024
Other comprehensive income										
– Remeasurement of employee benefit obligations		-	-	-	-	(249)	-	-	-	(249)
Total comprehensive income		-	-	-	-	(249)	-	86,024	-	85,775
Capital contributions upon Reorganization										
– Contribution of a joint venture	2.1	-	-	-	-	-	-	-	63,557	63,557
– Distribution to the Shareholder upon completion of the Reorganization	2.1	-	-	-	-	-	-	-	(34,286)	(34,286)
– Capitalisation of new shares to the Shareholder from transfer of assets and liabilities in the Reorganization	33(a)	-	-	322,000	-	-	-	-	(322,000)	-
Transfer to statutory reserve	33(b)	-	-	-	-	-	8,276	(8,276)	-	-
Appropriation and utilisation of safety fund, net	33(b)	-	-	-	5,566	-	-	(5,566)	-	-
As at 31 March 2018		-	-	322,000	5,566	(249)	8,276	72,182	-	407,775

For the three months ended 31 March 2019

	Notes	Paid in capital RMB'000	Share capital RMB'000 Note 33(a)	Capital reserve* RMB'000 Note 33(a)	Safety fund* RMB'000	Other comprehensive income* RMB'000	Statutory reserve* RMB'000 Note 33(b)	Retained earnings* RMB'000	Total equity RMB'000
As at 31 December 2018		–	350,000	50,000	8,419	(361)	8,874	85,384	502,316
Profit for the period		–	–	–	–	–	–	128,563	128,563
Other comprehensive income									
– Remeasurement of employee benefit obligations		–	–	–	–	(183)	–	–	(183)
Total comprehensive income		–	–	–	–	(183)	–	128,563	128,380
Transfer to statutory reserve	33(b)	–	–	–	–	–	11,893	(11,893)	–
Appropriation and utilisation of safety fund, net	33(b)	–	–	–	1,927	–	–	(1,927)	–
As at 31 March 2019		–	350,000	50,000	10,346	(544)	20,767	200,127	630,696

* These reserve accounts comprise the consolidated reserves of RMB152,316,000 and RMB280,696,000 in the consolidated statements of financial position as at 31 December 2018 and 31 March 2019, respectively.

Consolidated statements of cash flows

		Year ended 31 December			Three months ended 31 March	
	Notes	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		99,598	115,219	139,283	114,523	170,785
Adjustments for:						
Depreciation of property, plant and equipment and investment properties	9	68,155	87,759	89,210	22,216	22,917
Amortization of long-term prepaid expenses		581	7,779	4,578	1,145	1,145
Amortization of intangible assets		290	182	456	114	129
Amortization of right-of-use assets		1,430	1,608	879	100	337
Gains from financial assets at fair value through profit or loss	7	(1,001)	(1,882)	(2,307)	(1,671)	–
Finance costs	8	5,398	5,313	11,344	2,544	2,365
(Gain)/loss on disposal of items of property, plant and equipment	9	(21,052)	16,304	12	(34)	–
(Reversal of impairment)/impairment on financial and contract assets, net	9	(5,937)	9,831	23,319	(3,080)	(12,537)
Provision for impairment of property, plant and equipment	9	–	–	401	401	–
Bank interest income	7	(5,995)	(6,980)	(5,412)	(198)	(2,407)
Interest income from loans to related parties	7	–	(1,806)	–	–	–
Interest from time deposits with an initial term of over three months	7	(3,456)	(7,602)	–	–	–
Foreign exchange loss	9	843	260	–	–	–
Share of profits and losses of a joint venture		–	–	(1,501)	(2,075)	(2,666)
(Increase)/decrease in inventories		(10,336)	(5,802)	36,763	29,296	(18,301)
Decrease/(increase) in trade receivables and contract assets		6,939	(181,326)	(266,360)	(5,876)	135,617
(Increase)/decrease in other current assets		(19,936)	(17,142)	53,089	47,363	(9,230)
(Increase)/decrease in restricted bank deposits		(3,703)	3,000	–	–	–
(Increase)/decrease in prepayments and other receivables		(15,454)	(67,676)	(205,964)	330,188	269,695
Increase/(decrease) in trade payables		120,106	(2,615)	96,220	66,422	(125,518)
Increase/(decrease) in other payables and accruals		10,169	19,756	(70,252)	(77,435)	(19,984)
Increase/(decrease) in contract liabilities		66,829	48,604	(3,834)	(509,968)	(502,507)

Notes	Year ended 31 December			Three months ended 31 March	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
(Decrease)/increase in early retirement and supplemental benefit obligations	(741)	(651)	602	248	258
Increase/(decrease) in deferred income	8,311	3,621	7,167	729	(444)
Cash generated from/(used in) operations	301,038	25,754	(92,307)	14,952	(90,346)
Interest received	5,995	6,980	5,412	198	2,407
Income tax paid	(1,093)	(835)	(14,826)	(7,392)	(25,529)
Net cash flows from/(used in) operating activities	305,940	31,899	(101,721)	7,758	(113,468)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of intangible assets	(398)	(3,796)	(553)	(46)	(88)
Purchases of items of property, plant and equipment	(216,476)	(222,887)	(219,176)	(89,940)	(12,196)
Prepayments of land use right	(1,542)	–	–	–	–
Prepayments of long-term prepaid expenses	(33,611)	(9,170)	–	–	–
Proceeds from disposal of items of property, plant and equipment	19,681	–	368	40	–
Proceeds from disposal of land use right	162	–	–	–	–
(Purchase of)/proceeds from financial assets at fair value through profit or loss	–	(162,000)	162,000	112,000	–
Interest received from financial assets at fair value through profit or loss	1,001	1,869	2,320	1,138	–
Loans to related parties	–	(78,000)	–	–	(24,532)
Interest received from related parties	–	1,806	–	–	–
Changes in time deposits with an initial term of over three months	(200,000)	200,000	–	–	–
Dividend received from a joint venture	–	–	2,366	–	–
Interest income from time deposits with an initial term of over three months	–	11,058	–	–	–
Net cash flows (used in)/from investing activities	(431,183)	(261,120)	(52,675)	23,192	(36,816)

		Year ended 31 December			Three months ended 31 March	
	Notes	2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES						
Payment of principal of lease liabilities		(512)	(465)	(730)	–	(315)
Payment of interest expenses of lease liabilities		(81)	(61)	(93)	–	(42)
Transaction costs pursuant to initial public offering		–	–	(9,438)	–	(2,709)
Proceeds from bank and other borrowings		–	145,000	72,000	–	–
Repayment of bank and other borrowings		(77,197)	(122,387)	(67,000)	(2,000)	(5,000)
Capital injection		51,500	1,000	78,000	–	–
Dividends paid		(261)	(256)	–	–	–
Deemed distributions	33(b)	(2,000)	(239,750)	–	–	–
Interest paid		(5,317)	(5,252)	(11,264)	(2,687)	(2,604)
Repayment to related parties		(10,472)	(12,355)	(62,043)	(61,140)	(181)
Advance from related parties		–	198,592	32,194	26,428	–
Net cash flows (used in)/from financing activities		<u>(44,340)</u>	<u>(35,934)</u>	<u>31,626</u>	<u>(39,399)</u>	<u>(10,851)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS						
		(169,583)	(265,155)	(122,770)	(8,449)	(161,135)
Cash and cash equivalents at beginning of year/period		<u>916,392</u>	<u>746,809</u>	<u>481,654</u>	<u>481,654</u>	<u>358,884</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD						
	26	<u>746,809</u>	<u>481,654</u>	<u>358,884</u>	<u>473,205</u>	<u>197,749</u>

Statements of financial position of the Company

	Notes	As at 31 December 2017 RMB'000	December 2018 RMB'000	As at 31 March 2019 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	15	–	921,204	898,917
Investment properties		–	43	42
Investments in subsidiaries	34	–	129,532	137,532
Investment in a joint venture	17	–	62,692	65,358
Right-of-use assets	18	–	1,619	1,477
Intangible assets		–	3,050	2,965
Deferred tax assets		–	9,954	10,203
Total non-current assets		–	1,128,094	1,116,494
CURRENT ASSETS				
Inventories		–	8,186	8,186
Trade receivables		–	30,408	57,476
Prepayments and other receivables	23	–	355,215	121,341
Other current assets	24	–	12,868	29,524
Cash and cash equivalents	26	–	305,827	132,182
Total current assets		–	712,504	348,709
CURRENT LIABILITIES				
Trade payables	27	–	73,782	69,718
Other payables and accruals	28	–	108,727	103,142
Lease liabilities	18	–	634	653
Early retirement and supplemental benefit obligations	30	–	1,183	1,345
Deferred income		–	1,689	1,689
Tax payable		–	26,878	48,185
Contract liabilities		–	606,145	113,827
Total current liabilities		–	819,038	338,559
NET CURRENT (LIABILITIES)/ASSETS		–	(106,534)	10,150
TOTAL ASSETS LESS CURRENT LIABILITIES		–	1,021,560	1,126,644
NON-CURRENT LIABILITIES				
Lease liabilities	18	–	968	819
Contract liabilities		–	500,943	487,568
Deferred income		–	20,700	20,282
Early retirement and supplemental benefit obligations	30	–	10,571	10,850
Total non-current liabilities		–	533,182	519,519
NET ASSETS		–	488,378	607,125
EQUITY				
Share capital	33	–	350,000	350,000
Reserves	33	–	138,378	257,125
TOTAL EQUITY		–	488,378	607,125

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Jilin Province Chuncheng Heating Company Limited (the “Company”), formally known as “Jilin Province Changre New Energy Co., Ltd.” or “Jilin Province Chuncheng Heating Limited Liability Company”, is a joint stock company with limited liability established in the People’s Republic of China (the “PRC”). The registered office of the Company is located at 28/F (Hong Cheng Xiyu), 998 Nanhu Avenue, Nanguan District Sub-district B, Changchun, Jilin Province, the PRC.

During the Relevant Periods, the Company and its subsidiaries (collectively the “Group”) were involved in the following principal activities:

- Heat supply, including the provision and distribution of heat, pipeline connection fee and heat transmission;
- Construction, maintenance, and design services and others.

The Group underwent the following transactions, which were defined as “Reorganization” as set out in the paragraph headed “Reorganization” in the section headed “History, Development and Reorganization” in the Prospectus.

The Company was established by Changchun Heating Power (Group) Company Limited (the “Shareholder”) on 23 October 2017 as a limited liability company in the PRC. In preparation for the listing of the Company’s H shares on the Main Board of The Stock Exchange of Hong Kong Limited, the principal operations and businesses of the Shareholder (the “Core Operations”) were transferred to the Company on 1 January 2018 for nil consideration, which included:

- (1) All the operating assets and liabilities relating to the provision and distribution of heat operations except for those of the Lvxin Division (as detailed in “Excluded heat supply in the PRC” in the section headed “Relationship with our Controlling Shareholder” in the Prospectus);
- (2) Investment in Changchun FAW Sihuan Kinetic Company Limited (“FAW Sihuan”), a joint venture;
- (3) 100% equity interests in Changchun City Runfeng Construction Installation Engineering Company Limited (“Changchun Runfeng”), Jilin Province Heating Engineering Design and Research Company Limited (“Heating Engineering Design”), Jilin Province Changre Maintenance Service Company Limited (“Changre Maintenance”), Jilin Province Changre Pipelines Transmission Company Limited (“Changre Pipelines”), and Jilin Province Changre Electrical Apparatus Company Limited (“Changre Electrical Apparatus”).

In connection with the Reorganization, the following assets and liabilities (the “Retained Operations”) were not transferred to the Company and were retained by the Shareholder as further detailed in “Excluded heat supply in the PRC” in the section headed “Relationship with our Controlling Shareholder” and “Reorganization” in the section headed “History, Development and Reorganization” in the Prospectus:

- (1) Provision and distribution of heat operations of the Lvxin Division;
- (2) Certain operating assets historically associated with the Core Operations, which mainly represented the boiler related assets (the “Boiler Assets”);
- (3) Certain investments in associates and investments in unlisted companies at fair value through other comprehensive income, which were not related to the Core Operations (the “Other Investments”);
- (4) Two subsidiaries held by Changchun Runfeng, a then directly owned subsidiary of the Shareholder (the “Non-core Subsidiaries”), whose business is unrelated to the Core Operations of the Group; and
- (5) Certain land use rights, non-operating related property, plant and equipment, investment properties, intangible assets, deferred tax assets, inventories, trade and other receivables, cash, borrowings, deferred income, early retirement and supplemental benefit obligations, other payables, tax payable, etc. that were not transferred to the Company (the “Other Retained Assets and Liabilities”), but were the important components for the previous business operation.

As at the date of this report, the Company had direct and indirect interests in the following subsidiaries, all of which are companies with limited liability, the particulars of which are set out below:

Name of company	Place and date of incorporation/ registration and place of operations	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Changchun Runfeng ^(a)	Jilin, 10 October 2012	RMB40,000,000	100%	–	Engineering construction and installation
Heating Engineering Design ^(a)	Jilin, 22 June 2007	RMB5,000,000	100%	–	Heating engineering design
Changre Maintenance ^(a)	Jilin, 9 August 2016	RMB10,000,000	100%	–	Engineering maintenance
Changre Pipelines ^(b)	Jilin, 15 September 2017	RMB50,000,000	100%	–	Pipeline transmission
Changre Electrical Apparatus ^(b)	Jilin, 24 October 2017	RMB4,000,000	100%	–	Maintenance service
Jilin Province Chuncheng Biomass Power Co., Ltd. (“Biomass Power”) ^(c)	Jilin, 10 December 2018	RMB20,000,000	100%	–	Biomass heat supply

Notes:

- (a) The statutory financial statements of these entities for the year ended 31 December 2016 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by Jilin Zhengtai Certified Public Accountants Co., Ltd. registered in the PRC, for the years ended 31 December 2017 and 2018 prepared under PRC GAAP were audited by Ruihua Certified Public Accountants Co., Ltd. registered in the PRC.
- (b) The statutory financial statements of these entities for the years ended 31 December 2017 and 2018 prepared under PRC GAAP were audited by Ruihua Certified Public Accountants Co., Ltd. registered in the PRC.
- (c) Biomass Power is a limited liability company established in the PRC on 10 December 2018, a wholly-owned subsidiary of the Company. Up to date, Biomass Power has yet to commence operations.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization, the companies comprising the Group became under control by the Company as of 1 January 2018. The companies now comprising the Group were under the common control of the Shareholder before and after the Reorganization. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

The Historical Financial Information include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling Shareholder, whichever this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 March 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Shareholder’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganization.

The Historical Financial Information includes the assets, liabilities, results of the operations and cash flows of the Core Operations, except for those of Lvxin Division which were not transferred to the Company. Lvxin Division had been separately managed and financially controlled within the Shareholder, and it is practicable to identify the historical financial information attributable to Lvxin Division. In the opinion of the Company’s directors, the assets, liabilities and results of operations and cash flows of Lvxin Division were immaterial for the years ended 31 December 2016 and 2017 when compared with those of the Group.

The Historical Financial Information includes the Boiler Assets and the related liabilities before the Reorganization because the Boiler Assets were directly related to the Core Operations for the years ended 31 December 2016 and 2017. The Boiler Assets and the related liabilities were then derecognised as a distribution to the Shareholder on 1 January 2018.

The Historical Financial Information does not include the assets, liabilities, results of the operations and cash flows of the Other Investments on the basis that they have separate management personnel and accounting records and had been financed and had operated historically as if they were autonomous.

The Historical Financial Information does not include the assets, liabilities, results of the operations and cash flows of the Non-core Subsidiaries on the basis that they had separate management personnel and accounting records and had been financed and had operated historically as if they were autonomous.

The Other Retained Assets and Liabilities were essential components that historically supported the Core Operations. Accordingly, they were included in the Historical Financial Information before the date of completion of the Reorganization and were then derecognised as a distribution to the Shareholder on 1 January 2018.

Since the equity interests in FAW Sihuan were transferred by the Shareholder to the Company on 1 January 2018, it was accounted for an acquisition of a joint venture with an amount of RMB63,557,000 credited to equity attributable to the owners of the Company on that date in the Historical Financial Information.

The carrying amount of the assets and liabilities of the Boiler Assets and Other Retained Assets and Liabilities distributed to the Shareholder as at 1 January 2018 are as follows:

	<i>Notes</i>	As at 1 January 2018 <i>RMB'000</i>
Right-of-use assets		29,718
Intangible assets		245
Property, plant and equipment	2.1.1	286,167
Investment properties		1,215
Deferred tax assets		24,833
Inventories		12
Trade receivables		3,819
Cash and cash equivalents	2.1.2	47,982
Prepayments and other receivables	2.1.3	99,935
Other assets		19,940
Total assets		513,866
Trade payables		13,682
Other payables and accruals	2.1.4	145,577
Interest-bearing bank and other borrowings	2.1.5	163,521
Tax payable	2.1.6	79,073
Other liabilities		77,727
Total liabilities		479,580
		34,286

2.1.1 Property, plant and equipment mainly represented the Boiler Assets and a portion of office properties, office equipment and motor vehicle retained ("Office Assets") for the Retained Operations.

2.1.2 A portion of cash and cash equivalents were retained by Changchun Heating Group in order to maintain sufficient working capital for the remaining operation of Changchun Heating Group after the Reorganization.

- 2.1.3 Prepayments and other receivables mainly represented the payments by Changchun Heating Group on behalf of Changchun Public Administration Bureau for certain municipal engineering projects and amounts due from related parties for certain transactions which are non-trade in nature transactions. Changchun Heating Group was responsible for future performance obligations and collection thereupon.
- 2.1.4 Other payables and accruals mainly represented the non-trade related party balances to be collected by Changchun Heating Group, as well as deposits and payments arising from the Boiler Assets and the Office Assets.
- 2.1.5 Interest-bearing bank and other borrowings were retained by Changchun Heating Group, which will be responsible for future repayment according to the relevant loan agreements.
- 2.1.6 Tax payable was retained by Changchun Heating Group upon the Reorganization since Changchun Heating Group was responsible for the tax payment.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2018 and 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss.

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

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning 1 January 2018 and 1 January 2019, are consistently applied to the Group throughout the Relevant Periods, including:

(i) IFRS 9

IFRS 9 *Financial instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit loss ("ECL") model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a "three-stage" approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment loss and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit-impaired financial asset carried at amortized cost, a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of trade receivables and contract assets, this day-1 loss will be equal to their lifetime ECL where the simplified approach is adopted. Where there is a significant increase in credit risk, impairment is measured based on lifetime ECLs rather than 12-month ECLs. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The Group has the following financial assets subject to the expected credit loss impairment model under IFRS 9:

- trade receivables and contract assets recognized under IFRS 15;
- other receivables at amortized cost.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime credit loss provision for trade receivables and contract assets. Furthermore, the Group applies the general approach and has recorded twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. To measure the expected credit losses,

trade and other receivables and contract assets have been grouped based on shared credit risk, characteristics and days past due. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward-looking macroeconomic data.

The details of the accounting policies for financial instruments under IFRS 9 are disclosed in Note 4.

(ii) IFRS 15

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations on revenue recognition. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates.

The details of the accounting policies for Revenue from Contracts with Customers under IFRS 15 are disclosed in Note 4.

(iii) IFRS 16

IFRS16 *Leases*, which is effective for annual periods beginning on or after 1 January 2019, has been early adopted by the Company in the preparation of the Historical Financial Information throughout the Relevant Periods. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. IFRS 16 includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of each of the Relevant Periods. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- (a) Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) Exposure, or rights, to variable returns from its involvement with the investee
- (c) The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement(s) with the other vote holders of the investee
- (b) Rights arising from other contractual arrangements
- (c) The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

3. ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not adopted the following standards, that have been issued but not yet effective, in the Historical Financial Information:

Amendments to IFRS 3	<i>Definition of a Business¹</i>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material¹</i>
IFRS 17	<i>Insurance Contracts²</i>

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

Business combination of entities under common control

Business combinations of entities under common control are accounted for using the pooling of interests method. The results of subsidiaries are combined from the beginning of the Relevant Periods or the date on which a subsidiary first came under the common control of the controlling shareholders, whichever is later, and continue to be consolidated until the date that the Company's control ceases. The assets and liabilities of the combining entities are reflected at their existing carrying values at the date of combination. No amount is recognized in respect of goodwill or excess of the acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, which, instead, is recorded as part of equity.

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a shareholder of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is a joint venture of the other entity (or of a shareholder, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a shareholder of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the shareholder of the Group.

Property, plant and equipment

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

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

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

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

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

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

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

Investment properties

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

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

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	30 years	4%	3.2%

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

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

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

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

Intangible assets (other than goodwill)

Intangible assets are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 5 to 10 years. Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each of the Relevant Periods.

Software

Purchased software mainly consist of the software related to heating network system and office automation, which is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of usually 5 to 10 years.

Leases

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in future lease payment arising from change in an index or rate, or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of offices and warehouse (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of offices and warehouse that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Investments and other financial assets***Initial recognition and measurement***

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded

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

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

- Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Government grants

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

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

Revenue

Revenue from contracts with customers

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

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

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

1) Provision and distribution of heat

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

2) Pipeline connection fee

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

3) Heat transmission service

Revenue from the provision of the heat transmission services is recognized at the point in time when control of the heat is transferred to the customer, generally when heat is supplied to the customers.

4) Engineering construction and maintenance services

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

5) Design services

Revenue from design services rendered, including design, consulting and feasibility studies with respect to heating projects, is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

6) Sale of goods

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

Revenue from other sources

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

Other income

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

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

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

Employee benefits

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

Social pension plans

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

Termination and early retirement benefits

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

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

Defined benefit plan

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

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

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

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Housing fund and other social insurances

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

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

Borrowing costs

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

Dividends

Interim and final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The Historical Financial Information is presented in Renminbi, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Estimation uncertainty

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

Percentage of completion of construction, maintenance and design services

The Group recognizes revenue according to the percentage of completion of the individual contract of construction, maintenance and design services. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Management's estimation of the cost incurred to date and the budgeted cost is primarily based on the construction budget and actual cost report prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the percentage of completion and budgeted revenue. Because of the nature of the activities undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of both contract revenue and contract cost in the budget prepared for each construction contract as the contract progresses.

Useful lives and residual value of property, plant and equipment

The Group determines the estimated residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions as well as the possibility that the Group can renew the land use rights. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles, or legal or similar limits on the usage of the assets. Management will increase the depreciation charge where useful lives and residual value are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Details of property, plant and equipment are set out in Note 15 to the Historical Financial Information, respectively.

Provision for expected credit losses on trade receivables and contract assets

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 21 and Note 22 to the Historical Financial Information, respectively.

Impairment of non-financial assets

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

Measurement of financial assets at fair value

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 38 to the Historical Financial Information.

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The details of deferred tax assets are set out in Note 16 to the Historical Financial Information.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group considers the business from the perspective of service activities, which mainly include the following two reportable segments:

- Heat supply, including the provision and distribution of heat, pipeline connection and heat transmission; and
- Construction, maintenance and design services, including certain rental services and the sales of goods.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments are each managed separately because they distribute distinct products/services with different production/distribution processes and due to their distinct operating and gross margin characteristics. Segment performance is evaluated based on reportable segment profit/loss, which is measured consistently with the Group's profit/loss before tax.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the contractual prices which are comparable to prevailing market prices.

Year ended 31 December 2016	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	782,013	66,418	848,431
Intersegment sales	—	77,286	77,286
	<u>782,013</u>	<u>143,704</u>	<u>925,717</u>
<u>Reconciliation:</u>			
Elimination of intersegment sales			(77,286)
Revenue			<u>848,431</u>
Segment results	98,810	3,966	102,776
<u>Reconciliation:</u>			
Elimination of intersegment results	4,427	(7,605)	(3,178)
Profit before tax			<u>99,598</u>
Segment assets	2,486,043	162,582	2,648,625
<u>Reconciliation:</u>			
Elimination of intersegment receivables	(13,896)	(84,948)	(98,844)
Other eliminations	(53,711)	—	(53,711)
Total assets			<u>2,496,070</u>
Segment liabilities	2,039,309	112,127	2,151,436
<u>Reconciliation:</u>			
Elimination of intersegment payables	(96,750)	(2,094)	(98,844)
Total liabilities			<u>2,052,592</u>
Other segment information:			
(Reversal) of impairment/impairment on financial and contract assets, net	(6,395)	458	(5,937)
Depreciation and amortization	69,684	772	70,456
Capital expenditure	250,259	1,768	252,027

Year ended 31 December 2017	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	854,801	253,572	1,108,373
Intersegment sales	—	86,882	86,882
	<u>854,801</u>	<u>340,454</u>	<u>1,195,255</u>
<u>Reconciliation:</u>			
Elimination of intersegment sales			(86,882)
Revenue			<u>1,108,373</u>
Segment results	102,728	12,423	115,151
<u>Reconciliation:</u>			
Elimination of intersegment results	9,967	(9,899)	68
Profit before tax			<u>115,219</u>
Segment assets	2,736,739	319,351	3,056,090
<u>Reconciliation:</u>			
Elimination of intersegment receivables	(209,883)	(77,109)	(286,992)
Other eliminations	(111,999)	—	(111,999)
Total assets			<u>2,657,099</u>
Segment liabilities	2,400,288	251,074	2,651,362
<u>Reconciliation:</u>			
Elimination of intersegment payables	(266,503)	(20,489)	(286,992)
Total liabilities			<u>2,364,370</u>
Other segment information:			
Impairment losses recognized in profit or loss	2,438	7,393	9,831
Depreciation and amortization	96,374	954	97,328
Capital expenditure	230,559	5,294	235,853

Year ended 31 December 2018	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	939,522	500,637	1,440,159
Intersegment sales	—	50,006	50,006
	<u>939,522</u>	<u>550,643</u>	<u>1,490,165</u>
<u>Reconciliation:</u>			
Elimination of intersegment sales			<u>(50,006)</u>
Revenue			<u>1,440,159</u>
Segment results	119,553	21,103	140,656
<u>Reconciliation:</u>			
Elimination of intersegment results	7,352	(8,725)	<u>(1,373)</u>
Profit before tax			<u>139,283</u>
Segment assets	1,909,597	569,021	2,478,618
<u>Reconciliation:</u>			
Elimination of intersegment receivables	(76,848)	(54,950)	(131,798)
Other eliminations	(130,561)	—	<u>(130,561)</u>
Total assets			<u>2,216,259</u>
Segment liabilities	1,361,450	484,291	1,845,741
<u>Reconciliation:</u>			
Elimination of intersegment payables	(89,199)	(42,599)	<u>(131,798)</u>
Total liabilities			<u>1,713,943</u>
Other segment information:			
Impairment losses recognized/(reversed) in profit or loss	(1,747)	25,467	23,720
Depreciation and amortization	93,469	1,654	95,123
Capital expenditure	215,774	3,955	219,729

Three months ended 31 March 2018 (Unaudited)	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	468,719	26,673	495,392
Intersegment sales	—	5,819	5,819
	<u>468,719</u>	<u>32,492</u>	<u>501,211</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(5,819)</u>
Revenue			<u>495,392</u>
Segment results	114,043	3,314	117,357
<i>Reconciliation:</i>			
Elimination of intersegment results	—	(2,834)	<u>(2,834)</u>
Profit before tax			<u>114,523</u>
Segment assets	1,826,051	257,695	2,083,746
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(252,983)	(7,792)	(260,775)
Other eliminations	(131,657)	—	<u>(131,657)</u>
Total assets			<u>1,691,314</u>
Segment liabilities	1,309,297	185,018	1,494,315
<i>Reconciliation:</i>			
Elimination of intersegment payables	(257,887)	(2,888)	<u>(260,775)</u>
Total liabilities			<u>1,233,540</u>
Other segment information:			
Impairment losses recognised/(reversed) in profit or loss	1,351	(4,030)	(2,679)
Depreciation and amortization	23,241	260	23,501
Capital expenditure	89,599	387	89,986

Three months ended 31 March 2019	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	487,489	61,405	548,894
Intersegment sales	—	2,312	2,312
	<u>487,489</u>	<u>63,717</u>	<u>551,206</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			(2,312)
Revenue			<u>548,894</u>
Segment results	158,125	12,710	170,835
<i>Reconciliation:</i>			
Elimination of intersegment results	174	(224)	(50)
Profit before tax			<u>170,785</u>
Segment assets	1,532,854	417,088	1,949,942
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(96,423)	(23,231)	(119,654)
Other eliminations	(127,012)	—	(127,012)
Total assets			<u>1,703,276</u>
Segment liabilities	865,628	326,606	1,192,234
<i>Reconciliation:</i>			
Elimination of intersegment payables	(69,469)	(50,185)	(119,654)
Total liabilities			<u>1,072,580</u>
Other segment information:			
Impairment losses recognised/(reversed) in profit or loss	164	(12,701)	(12,537)
Depreciation and amortization	24,242	189	24,431
Capital expenditure	6,288	5,996	12,284

Geographical information

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

Information of major customers

In 2016 and 2017, and the three months ended 31 March 2018 and 2019, the Group did not have any revenue from sales to a single customer which accounted for 10% or more of the Group's total revenue.

In 2018, revenue of approximately RMB216,626,000 was derived from the "Construction, maintenance and design services" segment to a single customer.

7. REVENUE, OTHER INCOME AND GAINS

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

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
Revenue from contracts with customers					
Provision and distribution of heat	724,091	792,381	875,399	447,523	469,333
Pipeline connection fee	43,887	48,718	51,522	12,756	13,501
Heat transmission	14,035	13,702	12,601	8,440	4,655
Engineering construction	57,883	208,547	310,928	18,617	44,626
Engineering maintenance	1,989	36,942	173,063	5,928	15,424
Design services	5,534	7,351	16,051	2,105	1,287
Sale of goods	446	107	340	–	–
	847,865	1,107,748	1,439,904	495,369	548,826
Revenue from other sources					
Rental services	566	625	255	23	68
Total	848,431	1,108,373	1,440,159	495,392	548,894
Other income and gains					
Bank interest income	5,995	6,980	5,412	198	2,407
Government grants*	14,412	33,007	11,641	311	444
Gain on disposal of items of property, plant and equipment	21,052	–	–	34	–
Interest income from loans to related parties	–	1,806	–	–	–
Interest from time deposits with an initial term of over three months	3,456	7,602	–	–	–
Gains from financial assets at fair value through profit or loss	1,001	1,882	2,307	1,671	–
Others	868	871	1,595	50	77
Total	46,784	52,148	20,955	2,264	2,928

* There are no unfulfilled conditions and other contingencies relating to these grants.

Revenue from contracts with customers

(i) Disaggregated revenue information

Type of goods or services	Year ended 31 December			Three months ended	
	2016	2017	2018	31 March	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Heat supply segment:					
– Provision and distribution of heat	724,091	792,381	875,399	447,523	469,333
– Pipeline connection fee	43,887	48,718	51,522	12,756	13,501
– Heat transmission	14,035	13,702	12,601	8,440	4,655
	<u>782,013</u>	<u>854,801</u>	<u>939,522</u>	<u>468,719</u>	<u>487,489</u>
Construction, maintenance and design services segment:					
– Engineering construction	57,883	208,547	310,928	18,617	44,626
– Engineering maintenance	1,989	36,942	173,063	5,928	15,424
– Design services	5,534	7,351	16,051	2,105	1,287
– Sale of goods	446	107	340	–	–
	<u>65,852</u>	<u>252,947</u>	<u>500,382</u>	<u>26,650</u>	<u>61,337</u>
Total	<u>847,865</u>	<u>1,107,748</u>	<u>1,439,904</u>	<u>495,369</u>	<u>548,826</u>
Timing of revenue recognition					
Service provision delivered over time	833,384	1,093,939	1,426,963	486,929	544,171
Goods or services transferred at a point in time	<u>14,481</u>	<u>13,809</u>	<u>12,941</u>	<u>8,440</u>	<u>4,655</u>
Total	<u>847,865</u>	<u>1,107,748</u>	<u>1,439,904</u>	<u>495,369</u>	<u>548,826</u>

(a) *Contract liabilities*

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Current:				
Heat supply	597,551	652,394	606,145	113,827
Construction, maintenance and design services	2,570	4,276	3,077	6,263
	<u>600,121</u>	<u>656,670</u>	<u>609,222</u>	<u>120,090</u>
Non-current:				
Heat supply	514,704	506,759	500,943	487,568
Construction, maintenance and design services	—	—	—	—
	<u>514,704</u>	<u>506,759</u>	<u>500,943</u>	<u>487,568</u>

Contract liabilities include advances received for the provision and distribution of heat, pipeline connection service and construction and maintenance services.

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

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

	Year ended 31 December			Three months ended	
	2016	2017	2018	31 March	
	RMB'000	RMB'000	RMB'000	2018	2019
				RMB'000	RMB'000
				(Unaudited)	
Provision and distribution of heat	567,314	549,298	583,442	435,197	517,633
Pipeline connection service	43,014	48,253	68,952	12,756	13,501
Construction, maintenance and design services	—	2,570	4,276	1,127	49
	<u>610,328</u>	<u>600,121</u>	<u>656,670</u>	<u>449,080</u>	<u>531,183</u>

(ii) *Performance obligations*

The Group has elected the practical expedient of not disclosing the remaining performance obligation for the provision and distribution of heat and construction, maintenance and design services rendered because the performance obligation is part of a contract that has an original expected duration of one year or less.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) excluding the provision and distribution of heat and construction, maintenance and design services as at the end of each of the Relevant Periods:

	As at 31 December			As at 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Within 1 year	48,253	68,521	54,003	51,026	53,986
Over 1 year	514,704	506,759	500,943	495,058	487,568

The above remaining performance obligations expected to be recognized in more than one year relate to the provision of the pipeline connection and heat metering reform services. The amount disclosed above does not include variable consideration which is constrained.

8. FINANCE COSTS

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

	Year ended 31 December			Three months ended	
	2016	2017	2018	31 March	2019
	RMB'000	RMB'000	RMB'000	2018	2019
				(Unaudited)	
Finance costs:					
Interest on interest-bearing bank and other borrowings	5,440	4,764	10,793	2,430	2,222
Interest expenses on lease liabilities	81	61	93	–	42
Others	946	962	458	114	101
Subtotal	6,467	5,787	11,344	2,544	2,365
Less: Interest capitalized	(1,069)	(474)	–	–	–
	5,398	5,313	11,344	2,544	2,365

9. PROFIT BEFORE TAX

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

	Year ended 31 December			Three months ended	
	2016	2017	2018	31 March	2019
	RMB'000	RMB'000	RMB'000	2018	2019
				(Unaudited)	
Cost of heating operations	673,791	711,323	788,576	346,720	319,793
Cost of construction, maintenance and design services	53,766	209,042	426,909	22,265	53,279
	727,557	920,365	1,215,485	368,985	373,072

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Employee benefit expense (including directors' and chief executive's remuneration as set out in Note 10):					
Wages, salaries and allowances	98,093	100,250	97,246	25,005	25,316
Contributions to pension plans	19,619	20,050	19,449	5,001	5,063
Housing funds	11,771	12,030	11,670	3,001	3,038
Welfare and other expenses	17,642	21,472	13,449	2,340	3,415
Service cost (Note 30(b))	674	685	534	134	159
Employee benefit expenses	147,799	154,487	142,348	35,481	36,991
Depreciation*	68,155	87,759	89,210	22,216	22,917
Amortization*	871	7,961	5,034	1,259	1,177
Depreciation of right-of-use assets (Note 18)	1,430	1,608	879	100	337
Interest expenses on lease liabilities (Note 18)	81	61	93	–	42
Rental expense – short term**	–	–	7,158	4,327	71
Maintenance and repair expenses	374	156	479	19	3
(Gain)/loss on disposal of items of property, plant and equipment (Reversal of impairment)/ impairment on financial and contract assets, net	(21,052)	16,304	12	(34)	–
Provision for impairment of property, plant and equipment***	(5,937)	9,831	23,319	(3,080)	(12,537)
Bank interest income (Note 7)	–	–	401	401	–
Gains from financial assets at fair value through profit or loss (Note 7)	(5,995)	(6,980)	(5,412)	(198)	(2,407)
Interest income from loans to related parties (Note 7)	(1,001)	(1,882)	(2,307)	(1,671)	–
Interest income from time deposits with an initial term of over three months (Note 7)	–	(1,806)	–	–	–
Government grants (Note 7)	(3,456)	(7,602)	–	–	–
Foreign exchange losses, net****	(14,412)	(33,007)	(11,641)	(311)	(444)
	843	260	–	–	–

* The depreciation and amortization except for depreciation of right-of-use assets are included in “Cost of sales” and “Administrative expenses” in the consolidated statements of profit or loss.

** The rental expense – short term is included in “Cost of sales” and “Administrative expenses” in the consolidated statements of profit or loss.

*** Provision for impairment of property, plant and equipment is included in “Administrative expenses” in the consolidated statements of profit or loss.

**** Foreign exchange losses are included in “Other expenses” in the consolidated statements of profit or loss.

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The aggregate amounts of remuneration of the directors and supervisors of the Group for the Relevant Periods are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,301	1,658	1,982	493	599
Pension scheme contributions	179	205	218	59	68
Performance related bonuses	236	302	75	19	19
	<u>1,716</u>	<u>2,165</u>	<u>2,275</u>	<u>571</u>	<u>686</u>

* Certain executive directors and supervisors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

(a) Independent non-executive directors

Mr. Wang Yuguo, Mr. Fu Yachen and Mr. POON Pok Man, CoCa were appointed as independent non-executive directors on 19 August 2019. There was no emolument payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors, a non-executive director, the chief executive and supervisors:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016					
Executive directors:					
Mr. Yang Zhongshi ¹	–	352	–	37	389
Mr. Shi Mingjun ²	–	330	–	37	367
Mr. Li Yeji ³	–	134	30	26	190
	<u>–</u>	<u>816</u>	<u>30</u>	<u>100</u>	<u>946</u>
Non-executive director:					
Mr. Liu Changchun ⁴	–	264	–	27	291
Supervisors:					
Mr. Wang Fenghua ⁵	–	135	192	37	364
Ms. Wang Xuejing ⁶	–	–	–	–	–
Ms. Li Xiaoling ⁷	–	86	14	15	115
	<u>–</u>	<u>221</u>	<u>206</u>	<u>52</u>	<u>479</u>
	<u>–</u>	<u>1,301</u>	<u>236</u>	<u>179</u>	<u>1,716</u>

Note: All the directors and supervisors except for Ms. Wang Xuejing were employed by Changchun Heating Group before the establishment of the Company, so the above and following tables represent their remuneration in the Relevant Periods.

- 1 Mr. Yang Zhongshi joined Changchun Heating Group in July 1989 and was appointed as the chief executive and the general manager of the Company in May 2018.
- 2 Mr. Shi Mingjun joined Changchun Heating Group in March 1995 and was appointed as an executive director and the deputy general manager of the Company in May 2018.
- 3 Mr. Li Yeji joined Changchun Heating Group in September 2001 and was appointed as an executive director of the Company in May 2018.
- 4 Mr. Liu Changchun joined Changchun Heating Group in March 2016 and was appointed as the chairman of the Board and a non-executive director of the Company in 2018.
- 5 Mr. Wang Fenghua, who is still an employee of Changchun Heating Group after the establishment of the Company, was appointed as the chairman of the supervisory committee in May 2018.
- 6 Ms. Wang Xuejing, who is an employee of a third party, was appointed as a supervisor in May 2018.
- 7 Ms. Li Xiaoling was appointed as an employee representative supervisor in May 2018.

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December					
2017					
Executive directors:					
Mr. Yang Zhongshi	–	427	–	40	467
Mr. Shi Mingjun	–	388	–	40	428
Mr. Li Yeji	–	147	36	28	211
	–	962	36	108	1,106
Non-executive director:					
Mr. Liu Changchun	–	433	–	40	473
Supervisors:					
Mr. Wang Fenghua	–	136	248	40	424
Ms. Wang Xuejing	–	–	–	–	–
Ms. Li Xiaoling	–	127	18	17	162
	–	263	266	57	586
	–	1,658	302	205	2,165

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2018					
Executive directors:					
Mr. Yang Zhongshi	–	442	–	44	486
Mr. Xu Chungang ¹	–	361	–	29	390
Mr. Shi Mingjun	–	402	–	44	446
Mr. Li Yeji	–	196	40	31	267
	–	1,401	40	148	1,589
Non-executive director:					
Mr. Liu Changchun	–	446	–	44	490
Supervisors:					
Mr. Wang Fenghua	–	–	–	–	–
Ms. Wang Xuejing	–	–	–	–	–
Ms. Li Xiaoling	–	135	35	26	196
	–	135	35	26	196
	–	1,982	75	218	2,275

- 1 Mr. Xu Chungang joined the Company in April 2018 and is currently an executive director and was appointed as the deputy general manager of the Company in May 2018.

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Three months ended 31 March 2018 (Unaudited)					
Executive directors:					
Mr. Yang Zhongshi	–	111	–	11	122
Mr. Xu Chungang	–	–	–	–	–
Mr. Shi Mingjun	–	101	–	11	112
Mr. Li Yeji	–	37	10	8	55
	–	249	10	30	289
Non-executive director:					
Mr. Liu Changchun	–	113	–	11	124
Supervisors:					
Mr. Wang Fenghua	–	99	–	11	110
Ms. Wang Xuejing	–	–	–	–	–
Ms. Li Xiaoling	–	32	9	7	48
	–	131	9	18	158
	–	493	19	59	571

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Three months ended					
31 March 2019					
Executive directors:					
Mr. Yang Zhongshi	–	111	–	11	122
Mr. Xu Chungang	–	100	–	10	110
Mr. Shi Mingjun	–	101	–	11	112
Mr. Li Yeji	–	40	10	8	58
	–	352	10	40	402
Non-executive director:					
Mr. Liu Changchun	–	112	–	11	123
Supervisors:					
Mr. Wang Fenghua	–	100	–	11	111
Ms. Wang Xuejing	–	–	–	–	–
Ms. Li Xiaoling	–	35	9	6	50
	–	135	9	17	161
	–	599	19	68	686

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included three directors and one supervisor during the year ended 31 December 2016, three directors and one supervisor during the year ended 31 December 2017, four directors during the year ended 31 December 2018, three directors and one supervisor during three months ended 31 March 2018, and four directors during the three months ended 31 March 2019. Details of directors' and supervisors' remuneration are set out in Note 10 above. Details of the remuneration for the remaining highest paid employee who is not a director or a supervisor of the Company are as follows:

	Year ended 31 December			Three months ended	
	2016	2017	2018	31 March	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Salaries, allowances and benefits in kind	175	192	203	48	51
Performance-related bonuses	50	50	58	15	15
Pension scheme contributions	36	39	41	10	10
	261	281	302	73	76

The number of non-director and non-supervisor highest paid employee whose remuneration fell within the following band is as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	Number of employees	Number of employees	Number of employees	Number of employees (Unaudited)	Number of employees
Nil to HK\$1,000,000	1	1	1	1	1

12. INCOME TAX EXPENSE

Group

The Group's major components of income tax expense are as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax	26,566	31,279	45,555	28,987	39,370
Deferred tax	238	(1,892)	(8,949)	(488)	2,852
Total tax charge for the year/period	26,804	29,387	36,606	28,499	42,222

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax	99,598	115,219	139,283	114,523	170,785
Tax at the statutory tax rate of 25%	24,900	28,805	34,821	28,631	42,696
Effect of lower tax rates of certain subsidiaries	–	(4)	(30)	47	(1)
Difference of income tax between the Actual Method and Deemed Method	1,624	–	–	–	–
Profit attributable to a joint venture	–	–	(375)	(518)	(667)
Non-deductible expenses	384	1,085	2,190	339	194
Temporary differences not recognized in previous years	–	(499)	–	–	–
Tax losses utilized from previous years	(104)	–	–	–	–
	26,804	29,387	36,606	28,499	42,222

The Company's PRC subsidiaries are subject to income tax at 25% on their respective taxable incomes as calculated in accordance with the CIT Law and its relevant regulations (the "Actual Method") except for Changchun Runfeng and Changre Electrical Apparatus. Prior to 2017, Changchun Runfeng, based on the local practices, was taxed under a deemed profit method based on its revenue (the "Deemed Method"). No deferred tax assets were then provided for Changchun Runfeng in view of the deemed profit method imposed. Changre Electrical Apparatus is qualified as a small low-profit enterprise and is subject to income tax at a preferential rate of 10% for the years ended 2017 and 2018, and the periods ended 31 March 2018 and 2019.

13. DIVIDENDS

The Company was incorporated on 23 October 2017 and there was no dividend distributed during 2017 and 2018 and the three months ended 31 March 2019. Before the Reorganization was completed on 1 January 2018, Changchun Heating Group distributed dividends amounting to RMB261,000 and RMB256,000 to its shareholder, the State-owned Assets Supervision and Administration Commission of Changchun ("SASAC Changchun"), during 2016 and 2017, respectively.

14. EARNINGS PER SHARE

The basic and diluted earnings per share for the Relevant Periods were calculated as follows:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Profit for the year/period attributable to owners of the Company	72,794	85,832	102,677	86,024	128,563
Weighted average number of ordinary shares					
Basic	350,000,000	350,000,000	350,000,000	350,000,000	350,000,000
Diluted	350,000,000	350,000,000	350,000,000	350,000,000	350,000,000
Earnings per share attributable to owners of the Company (RMB per share):					
Basic	0.21*	0.25*	0.29*	0.25*	0.37*
Diluted	0.21*	0.25*	0.29*	0.25*	0.37*

* The basic earnings per share for each of the years ended 31 December 2016, 2017 and 2018, and the three months ended 31 March 2018 and 2019, are calculated based on the profit attributable to the owners of the Company and on the assumption that 350,000,000 shares issued on 30 May 2018 in connection with the Reorganization (as defined in Note 2.1) were deemed to have been in issue since 1 January 2016.

The Company does not have any potential diluted shares throughout the Relevant Periods. Accordingly, the diluted earnings per share amounts are the same as the basic earnings per share amounts.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings <i>RMB'000</i>	Pipeline <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Motor vehicle <i>RMB'000</i>	Construction in progress ("CIP") <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:							
At 1 January 2016	276,610	904,968	508,901	14,284	24,126	226,940	1,955,829
Additions	36,701	–	25,702	6,480	2,892	254,289	326,064
Transfers	6,471	9,341	7,007	750	–	(23,569)	–
Disposals	(16,437)	(6,835)	(10,960)	(4)	(2,310)	–	(36,546)
At 31 December 2016	303,345	907,474	530,650	21,510	24,708	457,660	2,245,347
Additions	–	–	35	3,636	4,365	205,258	213,294
Transfers	572	486,427	129,947	15,978	–	(632,924)	–
Transfer in from right-of-use assets	–	–	1,832	–	–	–	1,832
Disposals	(250)	(20,897)	(52,825)	(343)	(2,905)	–	(77,220)
At 31 December 2017	<u>303,667</u>	<u>1,373,004</u>	<u>609,639</u>	<u>40,781</u>	<u>26,168</u>	<u>29,994</u>	<u>2,383,253</u>
Distribution to the Shareholder upon completion of the Reorganization	(301,388)	(572)	(248,534)	(3,017)	(12,795)	(6,190)	(572,496)
Additions	–	–	1,389	2,324	520	32,062	36,295
Transfers	–	10,580	24,662	4,207	–	(39,449)	–
Disposals	–	–	(64)	–	(833)	–	(897)
At 31 December 2018	<u>2,279</u>	<u>1,383,012</u>	<u>387,092</u>	<u>44,295</u>	<u>13,060</u>	<u>16,417</u>	<u>1,846,155</u>
Additions	–	–	232	88	–	5,904	6,224
At 31 March 2019	<u>2,279</u>	<u>1,383,012</u>	<u>387,324</u>	<u>44,383</u>	<u>13,060</u>	<u>22,321</u>	<u>1,852,379</u>
Accumulated depreciation:							
At 1 January 2016	(81,711)	(610,329)	(329,876)	(6,499)	(19,107)	–	(1,047,522)
Provision	(8,510)	(24,292)	(31,286)	(2,712)	(1,296)	–	(68,096)
Disposals	11,295	6,128	10,493	2	1,847	–	29,765
At 31 December 2016	(78,926)	(628,493)	(350,669)	(9,209)	(18,556)	–	(1,085,853)
Transfer in from right-of-use assets	–	–	(391)	–	–	–	(391)
Provision	(10,208)	(38,124)	(33,242)	(4,695)	(1,431)	–	(87,700)
Disposals	11	20,062	41,592	389	2,497	–	64,551
At 31 December 2017	(89,123)	(646,555)	(342,710)	(13,515)	(17,490)	–	(1,109,393)
Distribution to the Shareholder upon completion of the Reorganization	88,006	518	185,430	725	11,095	–	285,774
Provision	(64)	(53,942)	(27,693)	(6,159)	(1,350)	–	(89,208)
Disposals	–	–	59	–	458	–	517
At 31 December 2018	<u>(1,181)</u>	<u>(699,979)</u>	<u>(184,914)</u>	<u>(18,949)</u>	<u>(7,287)</u>	<u>–</u>	<u>(912,310)</u>

APPENDIX I

ACCOUNTANTS' REPORT

	Buildings RMB'000	Pipeline RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Motor vehicle RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Provision	(16)	(13,624)	(7,280)	(1,675)	(321)	–	(22,916)
At 31 March 2019	(1,197)	(713,603)	(192,194)	(20,624)	(7,608)	–	(935,226)
Impairment:							
At 1 January 2016, 31 December 2016 and 2017	–	–	–	–	–	(4,158)	(4,158)
Distribution to the Shareholder upon completion of the Reorganization	–	–	–	–	–	555	555
Provision	–	–	–	–	–	(401)	(401)
At 31 December 2018 and 31 March 2019	–	–	–	–	–	(4,004)	(4,004)
Net carrying amount: At 31 December 2016	224,419	278,981	179,981	12,301	6,152	453,502	1,155,336
At 31 December 2017	214,544	726,449	266,929	27,266	8,678	25,836	1,269,702
At 31 December 2018	1,098	683,033	202,178	25,346	5,773	12,413	929,841
At 31 March 2019	1,082	669,409	195,130	23,759	5,452	18,317	913,149

None of the Group's property, plant and equipment was pledged to secure the Group's interest-bearing bank and other borrowings as of 31 December 2016, 2017 and 2018 and 31 March 2019. As of 31 March 2019, all buildings had ownership certificates.

Company

	Buildings RMB'000	Pipeline RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Motor vehicle RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost:							
At 31 December 2017	–	–	–	–	–	–	–
Distribution to the Shareholder upon completion of the Reorganization	2,278	1,372,430	357,240	36,607	10,644	19,982	1,799,181
Additions	–	–	1,392	1,858	520	31,255	35,025
Transfers	–	11,189	19,274	4,358	–	(34,821)	–
At 31 December 2018	2,278	1,383,619	377,906	42,823	11,164	16,416	1,834,206
Additions	–	–	233	79	–	–	312
At 31 March 2019	2,278	1,383,619	378,139	42,902	11,164	16,416	1,834,518

	Buildings <i>RMB'000</i>	Pipeline <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Motor vehicle <i>RMB'000</i>	Construction in progress ("CIP") <i>RMB'000</i>	Total <i>RMB'000</i>
Accumulated depreciation:							
At 31 December 2017	-	-	-	-	-	-	-
Distribution to the Shareholder upon completion of the reorganization	(1,116)	(646,037)	(156,111)	(12,385)	(5,320)	-	(820,969)
Provision	(64)	(53,948)	(26,964)	(5,955)	(1,098)	-	(88,029)
At 31 December 2018	<u>(1,180)</u>	<u>(699,985)</u>	<u>(183,075)</u>	<u>(18,340)</u>	<u>(6,418)</u>	<u>-</u>	<u>(908,998)</u>
Provision	(16)	(13,633)	(7,061)	(1,620)	(269)	-	(22,599)
At 31 March 2019	<u>(1,196)</u>	<u>(713,618)</u>	<u>(190,136)</u>	<u>(19,960)</u>	<u>(6,687)</u>	<u>-</u>	<u>(931,597)</u>
Impairment:							
At 31 December 2017	-	-	-	-	-	-	-
Contribution from the Shareholder upon completion of the Reorganization	-	-	-	-	-	(3,603)	(3,603)
Provision	-	-	-	-	-	(401)	(401)
At 31 December 2018 and 31 March 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,004)</u>	<u>(4,004)</u>
Net carrying amount:							
At 31 December 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2018	<u>1,098</u>	<u>683,634</u>	<u>194,831</u>	<u>24,483</u>	<u>4,746</u>	<u>12,412</u>	<u>921,204</u>
At 31 March 2019	<u>1,082</u>	<u>670,001</u>	<u>188,003</u>	<u>22,942</u>	<u>4,477</u>	<u>12,412</u>	<u>898,917</u>

16. DEFERRED TAX ASSETS

Group

	Contract liabilities RMB'000	Unrealized profits RMB'000	Accrued expenses RMB'000	Provision for impairment RMB'000	Deferred income RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2016	11,134	943	7,806	10,122	3,633	–	33,638
Deferred tax credited/ (debited) to profit or loss during the year	(1,183)	794	(296)	(1,631)	2,078	–	(238)
At 31 December 2016	<u>9,951</u>	<u>1,737</u>	<u>7,510</u>	<u>8,491</u>	<u>5,711</u>	<u>–</u>	<u>33,400</u>
Deferred tax credited/ (debited) to profit or loss during the year	(1,183)	(18)	(769)	2,957	905	–	1,892
At 31 December 2017	<u>8,768</u>	<u>1,719</u>	<u>6,741</u>	<u>11,448</u>	<u>6,616</u>	<u>–</u>	<u>35,292</u>
Distribution to the Shareholder upon completion of the Reorganization	(8,768)	(1,719)	(4,043)	(3,687)	(6,616)	–	(24,833)
Deferred tax credited to profit or loss during the year	–	343	606	5,930	2,070	–	8,949
At 31 December 2018	<u>–</u>	<u>343</u>	<u>3,304</u>	<u>13,691</u>	<u>2,070</u>	<u>–</u>	<u>19,408</u>
Deferred tax credited/(debited) to profit or loss during the period	–	6	236	(3,134)	(34)	74	(2,852)
At 31 March 2019	<u>–</u>	<u>349</u>	<u>3,540</u>	<u>10,557</u>	<u>2,036</u>	<u>74</u>	<u>16,556</u>

17. INVESTMENT IN A JOINT VENTURE

Group and Company

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	—	—	62,692	65,358

Particulars of the Group's joint ventures are as follows:

Name	Paid-in capital	Place of registration and business	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
FAW Sihuan	RMB20,000,000	Jilin, Mainland China	50.00%	50.00%	50.00%	Provision and distribution of heat

FAW Sihuan, which is considered a material joint venture of the Group and a heat services provider primarily engaged in boiler-generated heat production, supply and sale, is accounted for using the equity method.

The following table illustrates the summarized financial information in respect of FAW Sihuan adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information:

	As at 31 December 2018 RMB'000	As at 31 March 2019 RMB'000
Current assets	128,680	90,139
Non-current assets	64,567	62,671
Current liabilities	(50,402)	(11,064)
Non-current liabilities	(17,461)	(11,031)
Equity	125,384	130,715
Group's share in equity – 50%	62,692	65,358
Group's carrying amount of the investment	62,692	65,358

	Year ended 31 December 2018 RMB'000	Three months ended 31 March 2018 RMB'000 (Unaudited)	2019 RMB'000
Revenue	85,814	40,106	41,133
Cost of sales	(79,497)	(32,174)	(31,835)
Other operating income	3,238	180	73
Administrative expenses	(5,532)	(1,291)	(1,497)
Profit before tax	4,023	6,821	7,874
Income tax expense	(1,020)	(2,671)	(2,543)
Profit for the year/period	3,003	4,150	5,331
Total comprehensive income for the year/period	3,003	4,150	5,331
Group's share of profit, for the year/period	1,501	2,075	2,666

18. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Group

(a) *Right-of-use assets*

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at beginning of year/period	49,308	48,855	47,023	6,169
Addition	259	–	4,569	51
Disposals	(712)	–	–	–
Transfer out to property, plant and equipment	–	(1,832)	–	–
Distribution to the Shareholder upon completion of the Reorganisation	–	–	(45,423)	–
As at end of the year/period	48,855	47,023	6,169	6,220
Accumulated depreciation:				
As at beginning of year/period	(14,810)	(15,949)	(17,166)	(2,340)
Depreciation recognised during the year/period	(1,430)	(1,608)	(879)	(337)
Disposals	291	–	–	–
Transfer out to property, plant and equipment	–	391	–	–
Distribution to the Shareholder upon completion of the Reorganisation	–	–	15,705	–
As at end of the year/period	(15,949)	(17,166)	(2,340)	(2,677)
Net book value				
As at end of year/period	32,906	29,857	3,829	3,543

(b) *Lease liabilities*

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of year/period	977	465	–	3,839
Addition	–	–	4,569	51
Interest during the year/period	81	61	93	42
Payments during the year/period	(593)	(526)	(823)	(357)
Carrying amount at the end of year/period	465	–	3,839	3,575

Company

(a) *Right-of-use assets*

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Cost:				
As at beginning of year/period	–	–	–	2,063
Addition	–	–	2,003	–
Contribution from the shareholder upon completion of the Reorganisation	–	–	60	–
As at end of the year/period	–	–	2,063	2,063
Accumulated depreciation:				
As at beginning of year/period	–	–	–	(444)
Contribution from the shareholder upon completion of the Reorganisation	–	–	(20)	–
Depreciation recognised	–	–	(424)	(142)
As at end of the year/period	–	–	(444)	(586)
Net book value				
As at end of year/period	–	–	1,619	1,477

(b) *Lease liabilities*

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Carrying amount at the beginning of year/period	–	–	–	1,602
Addition	–	–	2,003	–
Interest during the year/period	–	–	40	19
Payments during the year/period	–	–	(441)	(149)
Carrying amount at the end of year/period	–	–	1,602	1,472

In 2018, the Group entered into an agreement with an Independent Third Party, which is a heat supply provider in Changchun, to lease its peak-shaving boilers exclusively in order to meet the Regulations on Changchun Municipal Heat Supply Management implemented in October 2018. The lease term ranges from 1 October 2018 to 30 September 2021. The rental fee is RMB6.0/GJ as determined on the actual consumption amount with an annual cap of RMB27.6 million. The fee may be subject to further adjustments as the parties may agree prior to each heat service period. The actual consumption amounts were nil and nil for the year ended 31 December 2018 and the three months ended 31 March 2019, respectively.

19. OTHER NON-CURRENT ASSETS

The balance represented prepaid office decoration expenses.

20. INVENTORIES**Group**

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Materials and supplies	9,602	14,612	11,912	30,213
Coal	38,685	39,477	5,088	5,088
	48,287	54,089	17,000	35,301
Less:				
Impairment of inventories	(5,945)	(5,945)	(5,631)	(5,631)
	42,342	48,144	11,369	29,670

Movements in the provision for impairment are as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment:				
At beginning of the year/period	5,945	5,945	5,945	5,631
Distribution to the Shareholder upon completion of the Reorganization	–	–	(314)	–
At end of the year/period	5,945	5,945	5,631	5,631

There were no pledged inventories as at 31 December 2016, 2017, 2018 and 31 March 2019.

21. TRADE RECEIVABLES**Group**

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	61,321	140,726	224,089	228,675
Less: Provision for impairment	(22,325)	(27,188)	(23,941)	(23,153)
	38,996	113,538	200,148	205,522

Trade receivables were unsecured and non-interest-bearing.

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

Group

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	26,659	97,950	185,862	190,351
Between 1 and 2 years	4,832	10,073	12,790	13,596
Between 2 and 3 years	6,672	1,191	926	830
Between 3 and 4 years	677	4,216	472	562
Between 4 and 5 years	156	108	98	183
Over 5 years	—	—	—	—
	<u>38,996</u>	<u>113,538</u>	<u>200,148</u>	<u>205,522</u>

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

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	28,635	22,325	27,188	23,941
Distribution to the Shareholder upon completion of the Reorganization	—	—	(12,029)	—
Impairment loss recognized	210	4,863	10,948	9,096
Impairment loss reversed	(6,520)	—	(2,166)	(9,884)
At the end of the year/period	<u>22,325</u>	<u>27,188</u>	<u>23,941</u>	<u>23,153</u>

Impairment under IFRS 9

The Group had provision and distribution of heat and provided construction, maintenance and design services to the Shareholder and fellow subsidiaries. The Group traded with such enterprises and had never had any receivables that could not be recovered. Therefore, the Directors were of the opinion that no impairment allowance was necessary for the Shareholder and fellow subsidiaries considering the current conditions and forecasts of future economic conditions, as appropriate.

The Group applies the simplified approach to the provision for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables (excluding receivables from the Shareholder and fellow subsidiaries). To measure the expected credit losses on trade receivables excluding receivables from the Shareholder and fellow subsidiaries have been grouped based on shared credit risk characteristics and the ageing.

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

As at 31 December 2016	The Shareholder and fellow subsidiaries	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Heat supply – Normal								
Expected credit loss rate	–	7.77%	30.31%	36.37%	66.45%	84.47%	100.00%	
Gross carrying amount (RMB'000)	–	19,262	1,366	1,974	462	805	8,424	32,293
Expected credit losses (RMB'000)	–	1,497	414	718	307	680	8,424	12,040
Heat supply – Basic heating fee*								
Expected credit loss rate	–	18.61%	30.99%	53.77%	70.44%	89.04%	100.00%	
Gross carrying amount (RMB'000)	–	1,945	1,074	597	389	283	2,312	6,600
Expected credit losses (RMB'000)	–	362	333	321	274	252	2,312	3,854
Construction, maintenance and design services								
Expected credit loss rate	–	7.55%	14.30%	24.56%	45.87%	–	100.00%	
Gross carrying amount (RMB'000)	–	7,909	3,664	6,812	750	–	3,293	22,428
Expected credit losses (RMB'000)	–	597	524	1,673	344	–	3,293	6,431

* According to the relevant government regulation, users of heat supply still have to pay the basic heating fee, which is 20% of the normal heating fee, after completing the formalities of heat supply suspension.

As at 31 December 2017	The Shareholder and fellow subsidiaries	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Heat supply – Normal								
Expected credit loss rate	–	3.59%	22.80%	34.26%	64.24%	83.06%	100.00%	
Gross carrying amount (RMB'000)	–	65,096	5,404	394	1,650	378	8,188	81,110
Expected credit losses (RMB'000)	–	2,338	1,232	135	1,060	314	8,188	13,267
Heat supply – Basic heating fee*								
Expected credit loss rate	–	14.24%	33.18%	57.23%	73.71%	90.79%	100.00%	
Gross carrying amount (RMB'000)	–	2,304	895	706	445	315	2,356	7,021
Expected credit losses (RMB'000)	–	328	297	404	328	286	2,356	3,999
Construction, maintenance and design services								
Expected credit loss rate	–	5.71%	11.39%	26.54%	45.87%	98.13%	100.00%	
Gross carrying amount (RMB'000)	13	35,214	5,985	859	6,481	750	3,293	52,595
Expected credit losses (RMB'000)	–	2,010	682	228	2,973	736	3,293	9,922

As at 31 December 2018	The Shareholder and fellow subsidiaries	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Heat supply – Normal								
Expected credit loss rate	–	2.59%	17.78%	44.39%	69.82%	85.71%	100.00%	
Gross carrying amount (RMB'000)	–	24,375	1,951	660	391	427	3,265	31,069
Expected credit losses (RMB'000)	–	632	347	293	273	366	3,265	5,176
Heat supply – Basic heating fee*								
Expected credit loss rate	–	17.76%	37.56%	54.41%	72.21%	90.57%	100.00%	
Gross carrying amount (RMB'000)	–	2,815	1,121	658	529	350	2,464	7,937
Expected credit losses (RMB'000)	–	500	421	358	382	317	2,464	4,442
Construction, maintenance and design services								
Expected credit loss rate	–	8.01%	19.38%	48.10%	65.16%	98.08%	100.00%	
Gross carrying amount (RMB'000)	40,669	130,727	11,614	501	597	260	715	185,083
Expected credit losses (RMB'000)	–	10,472	2,250	241	389	255	715	14,322
As at 31 March 2019	The Shareholder and fellow subsidiaries	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Heat supply – Normal								
Expected credit loss rate	–	2.00%	14.12%	35.71%	70.54%	82.82%	100.00%	
Gross carrying amount (RMB'000)	–	50,574	1,799	658	385	419	3,220	57,055
Expected credit losses (RMB'000)	–	1,011	254	235	272	347	3,220	5,339
Heat supply – Basic heating fee*								
Expected credit loss rate	–	14.71%	28.68%	42.50%	55.70%	72.13%	100.00%	
Gross carrying amount (RMB'000)	–	3,208	1,792	560	684	366	2,595	9,205
Expected credit losses (RMB'000)	–	472	514	238	381	264	2,595	4,464
Construction, maintenance and design services								
Expected credit loss rate	–	7.69%	18.10%	46.58%	65.56%	98.20%	100.00%	
Gross carrying amount (RMB'000)	26,027	122,322	12,065	161	421	500	919	162,415
Expected credit losses (RMB'000)	–	9,405	2,184	75	276	491	919	13,350

22. CONTRACT ASSETS

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Contract assets arising from construction and maintenance services	14,263	116,184	283,334	143,131
Less: Provision for impairment	(1,077)	(6,630)	(21,119)	(9,414)
	<u>13,186</u>	<u>109,554</u>	<u>262,215</u>	<u>133,717</u>

The contract assets primarily relate to the Group's right to consideration for work completed but not billed because the rights are conditioned on the Group's future performance in satisfying the respective performance obligations at the reporting date in respect of construction contracts. Upon completion of construction and acceptance by the customers, the amounts recognized as contract assets are reclassified to trade receivables.

The expected timing of recovery or settlement for contract assets as at 31 December 2016, 2017 and 2018 and 31 March 2019 is as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	14,071	115,775	271,404	130,816
More than one year	192	409	11,930	12,315
Total	<u>14,263</u>	<u>116,184</u>	<u>283,334</u>	<u>143,131</u>

The movements in the loss allowance for impairment of contract assets are as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	653	1,077	6,630	21,119
Impairment loss recognized	424	5,571	14,489	–
Impairment loss reversed	–	(18)	–	(11,705)
At the end of the year/period	<u>1,077</u>	<u>6,630</u>	<u>21,119</u>	<u>9,414</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer base.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

Expected loss rate	As at 31 December						As at 31 March					
	2016			2017			2018			2019		
	Contract assets	Provision	Expected loss rate	Contract assets	Provision	Expected loss rate	Contract assets	Provision	Expected loss rate	Contract assets	Provision	Expected loss rate
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000	
	7.55%	14,263	1,077	5.71%	116,184	6,630	7.45%	283,334	21,119	6.58%	143,131	9,414

23. PREPAYMENTS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments*	120,506	146,802	304,516	32,838
Staff advances	1,146	1,200	376	595
Deposits	3,575	3,727	2,696	3,549
Interest receivable	3,456	—	—	—
Due from related parties (Note 36(b))	4,674	7,422	4,422	5,281
Due from the Shareholder (Note 36(b))	10,855	20,462	4,152	28,625
Loans to related parties (Note 36(b))	—	78,000	—	—
Payment on behalf of other parties	3,130	42,950	12,750	12,750
Others	8,344	9,699	6,475	6,586
	155,686	310,262	335,387	90,224
Less: Provision for impairment	(2,593)	(2,008)	(71)	(27)
	153,093	308,254	335,316	90,197

* Prepayments mainly include the prepayment of the heat procurement.

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

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	2,644	2,593	2,008	71
Distribution to the Shareholder upon completion of the Reorganization	—	—	(1,985)	—
Impairment loss recognized	52	—	48	—
Impairment loss reversed	(103)	(585)	—	(44)
At the end of the year/period	2,593	2,008	71	27

Company

	As at 31 December 2018 RMB'000	As at 31 March 2019 RMB'000
Prepayments	302,088	25,693
Staff advances	110	229
Due from subsidiaries	47,368	64,448
Due from the Shareholder	4,132	28,634
Others	1,521	2,339
	<u>355,219</u>	<u>121,343</u>
Less: Provision for impairment	<u>(4)</u>	<u>(2)</u>
	<u><u>355,215</u></u>	<u><u>121,341</u></u>

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

	As at 31 December 2018 RMB'000	As at 31 March 2019 RMB'000
At the beginning of the year/period	–	4
Impairment loss recognised/(reversed)	<u>4</u>	<u>(2)</u>
At the end of the year/period	<u><u>4</u></u>	<u><u>2</u></u>

Impairment under IFRS 9

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

24. OTHER CURRENT ASSETS**Group**

	As at 31 December			As at 31 March 2019
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Deductible value-added tax	38,016	55,103	2,127	11,662
Prepaid land tax and property tax	1,451	1,685	–	–
Deferred expenses	8,243	9,542	5,347	4,626
Prepaid transaction cost pursuant to initial public offering	–	–	12,099	19,314
Others	<u>–</u>	<u>–</u>	<u>294</u>	<u>710</u>
	<u><u>47,710</u></u>	<u><u>66,330</u></u>	<u><u>19,867</u></u>	<u><u>36,312</u></u>

Company

	As at 31 December 2018 RMB'000	As at 31 March 2019 RMB'000
Deductible value-added tax	–	9,596
Prepaid transaction cost pursuant to initial public offering	12,099	19,314
Deferred expenses	769	48
Others	–	566
	<u>12,868</u>	<u>29,524</u>

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 31 March 2019 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	
Financial assets at fair value through profit or loss				
– Bank's wealth management products	–	162,013	–	–

Wealth management products were mainly investments in financial instruments issued by banks which have no guaranteed returns. The fair values of financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

26. CASH AND CASH EQUIVALENTS

Group

	As at 31 December			As at 31 March 2019 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	
Restricted bank deposits*	3,703	703	–	–
Time deposits with an initial term of over three months	200,000	–	–	–
	<u>203,703</u>	<u>703</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	746,809	481,654	358,884	197,749
	<u>950,512</u>	<u>482,357</u>	<u>358,884</u>	<u>197,749</u>
Cash and bank balances denominated in:				
– RMB	950,512	482,357	358,884	197,749

* Restricted bank deposits mainly represented deposits received from an unrelated third-party subcontractor ("the Subcontractor") for quality deposit purposes. As noticed by the local court, the deposit was frozen and shall be remitted to the court directly pursuant to a separate loan dispute between the Subcontractor and another Independent Third Party.

Company

	As at 31 December 2018 <i>RMB'000</i>	As at 31 March 2019 <i>RMB'000</i>
Cash and cash equivalents	305,827	132,182
Cash and bank balances denominated in:		
– RMB	305,827	132,182

Time deposits with an initial term of over three months are excluded from cash and cash equivalents, as management is of the opinion that these time deposits are not readily convertible to known amounts of cash without significant risk of changes in value.

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

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

27. TRADE PAYABLES**Group**

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

	As at 31 December			As at 31 March 2019 <i>RMB'000</i>
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	
Within 1 year	205,496	133,805	144,544	174,005
More than one year	35,395	104,471	176,270	21,291
	240,891	238,276	320,814	195,296

Trade payables are non-interest-bearing and normally settled on terms of 90 days.

Company

An aging analysis of the trade payables as at 31 December 2018 and 31 March 2019, based on the invoice dates, is as follows:

	As at 31 December 2018 <i>RMB'000</i>	As at 31 March 2019 <i>RMB'000</i>
Within 1 year	26,814	65,337
More than one year	46,968	4,381
	73,782	69,718

28. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Payables for acquisition of property, plant and equipment	245,621	240,513	39,699	33,723
Deposits	18,134	25,415	760	720
Other tax payables	5,772	18,835	23,706	5,892
Salaries, bonuses and staff welfare benefits payable	18,982	18,123	16,985	10,636
Due to related parties (<i>Note 36(b)</i>)	–	198,592	3,553	3,372
Other	54,452	53,874	12,323	20,878
	<u>342,961</u>	<u>555,352</u>	<u>97,026</u>	<u>75,221</u>

Company

	As at	As at
	31 December	31 March
	2018	2019
	RMB'000	RMB'000
Payables for acquisition of property, plant and equipment	39,549	33,573
Deposits	355	315
Other tax payables	4,166	98
Salaries, bonuses and staff welfare benefits payable	13,632	9,028
Due to subsidiaries	37,916	39,102
Due to related parties	1,261	512
Share issue expenses	2,735	7,241
Other payables and accruals	9,113	13,273
	<u>108,727</u>	<u>103,142</u>

Other payables of the Group and Company are unsecured, non-interest-bearing and have no fixed terms of repayment.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	As at 31 December 2016			As at 31 December 2017			As at 31 December 2018			As at 31 March 2019		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Current												
Bank borrowings-unsecured	0-5.895%	2017	10,094	0-5.895%	2018	7,021	-	-	-	-	-	-
Other borrowings-secured*	-	-	-	-	-	-	10%	2019	101,000	10%	2019	96,000
Other borrowings-unsecured**	0-1.2%	2017	130,000	-	2018	100,000	0-12%	2019	7,000	0-12%	2019	7,000
			<u>140,094</u>			<u>107,021</u>			<u>108,000</u>			<u>103,000</u>
Non-current												
Bank borrowings-unsecured	0-5.895%	2018-2030	49,053	5.895%	2019-2030	42,000	-	-	-	-	-	-
Other borrowings - secured*	-	-	-	10%	2019	103,000	-	-	-	-	-	-
Other borrowings-unsecured	-	2018-long term	54,500	-	Long term	14,500	-	-	-	-	-	-
			<u>103,553</u>			<u>159,500</u>			<u>-</u>			<u>-</u>
			<u>243,647</u>			<u>266,521</u>			<u>108,000</u>			<u>103,000</u>

* Certain of the other borrowings from Jilin Province Xinda Investment Management Co. Ltd. ("Jilin Xinda") are secured by rights of receivables from future construction and maintenance services of Changchun Runfeng and Changre Maintenance as of 31 December 2017 and 2018 and 31 March 2019.

** The Group's unsecured other borrowings are mainly from the Changchun Municipal Finance Bureau (长春市财政局), the Changchun Municipal Public Utilities Bureau (长春市政公用局) and Jilin Xinda. As of 31 December 2016 and 2017, other borrowings from the Changchun Municipal Finance Bureau and Changchun Municipal Public Utilities Bureau amounting to RMB60,000,000 and RMB100,000,000 were overdue, respectively. However, the above overdue other borrowings in default were not transferred to the Company on 1 January 2018.

Group

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Analyzed into:				
Within one year	140,094	107,021	108,000	103,000
In the second year	47,053	106,500	-	-
In the third to fifth years, inclusive	10,500	10,500	-	-
Beyond five years	46,000	42,500	-	-
	<u>243,647</u>	<u>266,521</u>	<u>108,000</u>	<u>103,000</u>

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings denominated in				
– RMB	233,500	263,000	108,000	103,000
– EUR	10,147	3,521	–	–
	<u>243,647</u>	<u>266,521</u>	<u>108,000</u>	<u>103,000</u>

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

30. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS

According to relevant local regulation, the Group has defined benefit plan to pay for supplemental medical insurance for around 575 of its employees for the years ended 31 December 2016, 2017 and 2018, and three months ended 31 March 2019. The Group defined benefit plan to pay for heating supply and other subsidies for around 1,500 employees during the years ended 2016 and 2017, and around 1,080 employees during the year ended 31 December 2018 and the three months ended 31 March 2019. In addition, the Group was obligated to pay early retirement benefits to 2 employees.

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

	As at 31 December			As at 31 March	
	Group	Company	Company	Group	Company
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Statements of financial position obligations for:					
Early retirement (Note a)					
Present value of early retirement obligations	1,647	1,410	–	–	–
Less: current portion	(204)	(198)	–	–	–
Non-current portion	<u>1,443</u>	<u>1,212</u>	<u>–</u>	<u>–</u>	<u>–</u>
Supplemental benefit obligations (Note b)					
Present value of supplemental benefit obligations	28,392	25,553	11,754	11,754	12,195
Less: current portion	(2,061)	(1,982)	(1,183)	(1,183)	(1,345)
Non-current portion	<u>26,331</u>	<u>23,571</u>	<u>10,571</u>	<u>10,571</u>	<u>10,850</u>
Total current portion	<u>2,265</u>	<u>2,180</u>	<u>1,183</u>	<u>1,345</u>	<u>1,345</u>
Total non-current portion	<u>27,774</u>	<u>24,783</u>	<u>10,571</u>	<u>10,850</u>	<u>10,850</u>

Group

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Statements of profit or loss charge:					
Early retirement and supplemental benefit obligations					
– Early retirement	33	(33)	–	–	–
– Supplemental benefit obligations	1,620	1,647	992	248	260
Other comprehensive income:					
Remeasurement of supplemental benefit obligations					
– (Gains)/losses from change in actuarial assumptions	(442)	(2,425)	361	249	183

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

(a) Early retirement

	Year ended 31 December			Three months ended 31 March	
	Group	Company	Group	Company	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,839	1,647	1,410	1,410	–
Distribution to the Shareholder upon completion of the Reorganization	–	–	(1,410)	(1,410)	–
Amount recognized in profit or loss for the current year/period					
– Net interest expense	47	45	–	–	–
Re-measurement amount recognised in profit or loss for the current year/period					
– Actuarial gains for the current year/period	(14)	(78)	–	–	–
Payment of benefits	(225)	(204)	–	–	–
At 31 December/31 March	1,647	1,410	–	–	–

(b) Supplemental benefit obligations

	Year ended 31 December				Three months ended 31 March	
	Group		Company		Group	Company
	2016	2017	2018	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	29,384	28,392	25,553	25,553	11,754	11,754
Distribution to the Shareholder upon completion of the Reorganization	–	–	(14,762)	(14,762)	–	–
Amount recognized in profit or loss for the current year/period						
– Service cost	674	685	534	534	159	159
– Net interest expense	946	962	458	458	101	101
Re-measurement amount recognized in other comprehensive income						
– Actuarial gains for the current year/period	(442)	(2,425)	361	361	183	183
Payment of benefits	(2,170)	(2,061)	(390)	(390)	(2)	(2)
At 31 December/31 March	28,392	25,553	11,754	11,754	12,195	12,195

The principal actuarial assumptions used were as follows:

	As at 31 December			As at
	2016	2017	2018	31 March 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Discount rate – early retirement benefits	2.90%	3.90%	Not applicable	Not applicable
Discount rate – supplemental heating supply and other subsidies	3.60%	4.30%	3.55%	3.45%
Discount rate – supplemental medical insurance	2.65%	3.80%	2.65%	2.50%
Turnover rate	0.00%	0.00%	0.00%	0.00%

The sensitivity analysis of the principal actuarial assumptions adopted in the present value of the defined benefit liability of the Group is as follows:

	Change in assumption	Impact on present value of defined benefit liability	
		Increase in assumption	Decrease in assumption
Discount rate – early retirement benefits	0.25%	Decrease by 1.18%	Increase by 1.20%
Discount rate – supplemental heating supply and other subsidies	0.25%	Decrease by 4.68%	Increase by 4.90%
Discount rate-supplemental medical insurance	0.25%	Decrease by 0.36%	Increase by 0.36%
Turnover rate	1.00%	Decrease by 7.83%	Not applicable

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity analysis of the defined benefit obligation to significant actuarial assumptions, the projected unit credit method has been applied.

31. DEFERRED INCOME

The Group's deferred income represents government grants, which are related to assets.

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	14,533	22,844	26,465	23,325
Distribution to the Shareholder upon completion of the Reorganization	–	–	(10,307)	–
Additions	10,061	6,061	8,660	–
Amortized during the year/period	(1,750)	(2,440)	(1,493)	(444)
At the end of year/period	22,844	26,465	23,325	22,881
Less: Portion classified as current liabilities	(2,388)	(2,733)	(1,793)	(1,793)
Non-current portion	20,456	23,732	21,532	21,088

32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

As detailed in Note 2.1, on 1 January 2018 the Company distributed the assets and liabilities of the Boiler Assets and Other Retained Assets and Liabilities to the Shareholder with nil consideration.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
As at 1 January 2016	320,001	977	320,978
Repayment of bank and other borrowings	(77,197)	–	(77,197)
Payment of principal of lease liabilities	–	(512)	(512)
Payment of interest expense of lease liabilities	–	(81)	(81)
Changes from financing cash flows	(77,197)	(593)	(77,790)
Net foreign exchange differences	843	–	843
Non-cash transactions	–	81	81
As at 31 December 2016	243,647	465	244,112

	Interest- bearing bank and other borrowings <i>RMB'000</i>	Due to related parties <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2017	243,647	–	465	244,112
Proceeds from bank and other borrowings	145,000	–	–	145,000
Repayment of bank and other borrowings	(122,387)	–	–	(122,387)
Advance from related parties	–	198,592	–	198,592
Payment of principal of lease liabilities	–	–	(465)	(465)
Payment of interest expense of lease liabilities	–	–	(61)	(61)
Changes from financing cash flows	22,613	198,592	(526)	220,679
Net foreign exchange differences	261	–	–	261
Non-cash transactions	–	–	61	61
As at 31 December 2017	<u>266,521</u>	<u>198,592</u>	<u>–</u>	<u>465,113</u>
	Interest- bearing bank and other borrowings <i>RMB'000</i>	Due to related parties <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2018	266,521	198,592	–	465,113
Proceeds from bank and other borrowings	72,000	–	–	72,000
Repayment of bank and other borrowings	(67,000)	–	–	(67,000)
Payment of principal of lease liabilities	–	–	(730)	(730)
Payment of interest expenses of lease liabilities	–	–	(93)	(93)
Repayment to related parties	–	(62,043)	–	(62,043)
Changes from financing cash flows	5,000	(62,043)	(823)	(57,866)
Changes from investing cash flows	–	1,081	–	1,081
Non-cash transactions	(163,521)	(134,077)	4,662	(292,936)
As at 31 December 2018	<u>108,000</u>	<u>3,553</u>	<u>3,839</u>	<u>115,392</u>

	Interest-bearing bank and other borrowings <i>RMB'000</i>	Due to related parties <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2019	108,000	3,553	3,839	115,392
Repayment of bank and other borrowings	(5,000)	–	–	(5,000)
Repayment to related parties	–	(181)	–	(181)
Payment of principal of lease liabilities	–	–	(315)	(315)
Payment of interest expenses of lease liabilities	–	–	(42)	(42)
Changes from financing cash flows	(5,000)	(181)	(357)	(5,538)
Non-cash transactions	–	–	93	93
As at 31 March 2019	<u>103,000</u>	<u>3,372</u>	<u>3,575</u>	<u>109,947</u>

	Interest-bearing bank and other borrowings <i>RMB'000</i>	Due to related parties <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2018	266,521	198,592	465,113
Repayment of bank and other borrowings	(2,000)	–	(2,000)
Repayment to related parties	–	(61,140)	(61,140)
Changes from financing cash flows	(2,000)	(61,140)	(63,140)
Non-cash transactions	(163,521)	(134,077)	(297,598)
As at 31 March 2018	<u>101,000</u>	<u>3,375</u>	<u>104,375</u>

33. EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Share capital and capital reserve

(i) Registered and paid-in capital

For the purpose of this report, the paid-in capital of the Group represents the paid-in capital of the Company before it was converted into a joint stock company with limited liability.

On 23 April 2018, the Shareholder contributed RMB50,000,000 as paid-in capital to the Company. On 26 April 2018, upon approvals by SASAC Changchun, Changchun Heating Group, Changchun State-owned Capital Investment Operation (Group) Co., Ltd. (“Changchun SCIO Group”) and the Company entered into an agreement, pursuant to which Changchun SCIO Group became the new shareholder and agreed to inject RMB28,000,000 in the Company, of which RMB3,763,400 was included as paid-in capital of the Company and the remaining RMB24,236,600 was included as capital reserve of the Company (the “Capital Injection”). After the completion of the Capital Injection, Changchun SCIO Group became a shareholder of the Company, holding a 7% equity interest in the Company, while Changchun Heating Group held a 93% equity interest in the Company. The paid-in capital of the Company was increased to RMB53,763,400.

(ii) *Reorganization*

As detailed in Note 2.1, the Company completed the Reorganization as of 1 January 2018, the “Core Operations” as a capital reserve amounting to RMB322,000,000 was capitalized from the Shareholder to the Company.

(iii) *Conversion into a joint stock company with limited liability*

The Company was a limited liability company and converted into a joint stock company with limited liability on 30 May 2018. Pursuant to the approval of the State-owned Assets Supervision and Administration Commission, the Company’s equity of RMB400,000,000 was converted into share capital with an amount of RMB350,000,000 and capital reserve with an amount of RMB50,000,000 of the joint stock company with limited liability. The registered capital of the Company upon conversion was RMB350,000,000, which was divided into 350,000,000 ordinary shares of RMB1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders’ meetings of the Company. All ordinary shares rank equally with regard to the Company’s residual net assets.

(b) **Reserves**

Group

(i) *Statutory reserve fund*

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

(ii) *Safety fund*

The safety fund represents the safety production fund, which is accrued based on revenue last year in accordance with the circular of the Ministry of Finance on the enterprise safety production.

(iii) *Contributions from the then shareholder*

Contributions from the then shareholder mainly represented capital contributions from SASAC Changchun, the shareholder of Changchun Heating Group, amounting to RMB51,500,000 and RMB1,000,000 during 2016 and 2017, respectively.

(iv) *Distributions*

(1) *Distribution to the Shareholder*

Distribution to the Shareholder mainly represents the distribution of assets and liabilities to the Shareholder.

(2) *Deemed distributions*

Changchun Xinda Construction Project Management Co., Ltd., (“Changchun Xinda”), formerly known as Changchun Heating Group Construction Project Management Co., Ltd. (“Changchun Heating Construction”), was established in 2016 by Changchun Heating Group with the paid-up capital of RMB2,000,000 in cash. As the business and operations are unrelated to the Core Operations, it was not transferred to the Group pursuant to the Reorganization. The Historical Financial Information has not included Changchun Heating Construction, and therefore it was accounted for as a deemed distribution to the Shareholder during 2016.

The Group acquired equity interest in certain associates and unlisted equity investments at fair value through other comprehensive income with a total amount of RMB239,750,000 in 2017, as the business and operations of which are unrelated to the Core Operations, they were not transferred to the Group pursuant to the Reorganization. The Historical Financial Information has not included these entities, and therefore such transactions were accounted for as deemed distributions to the Shareholder during 2017.

Company

A summary of the Company's reserves is as follows:

	Capital reserve	Other comprehensive income	Statutory reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note 33(a)</i>		<i>Note 33(b)</i>		
As at 31 December 2017	–	–	–	–	–
Profit for the period	–	–	–	88,739	88,739
Other comprehensive income					
Remeasurement of employee benefit obligations	–	(361)	–	–	(361)
Total comprehensive income	–	(361)	–	88,739	88,738
Capital contributions upon the Reorganization					
Capitalization of new shares to the shareholder from transfer of assets and liabilities in the Reorganization	322,000	–	–	–	322,000
Capital injection from a shareholder	24,237	–	–	–	24,237
Shareholding reform	(296,237)	–	–	–	(296,237)
Transfer to statutory reserve	–	–	8,874	(8,874)	–
As at 31 December 2018	50,000	(361)	8,874	79,865	138,378
Profit for the period	–	–	–	118,930	118,930
Other comprehensive income					
Remeasurement of employee benefit obligations	–	(183)	–	–	(183)
Total comprehensive income	–	(183)	–	118,930	118,747
Transfer to statutory reserve	–	–	11,893	(11,893)	–
As at 31 March 2019	50,000	(544)	20,767	186,902	257,125

34. INVESTMENTS IN SUBSIDIARIES

	As at 31 December 2018 <i>RMB'000</i>	As at 31 March 2019 <i>RMB'000</i>
Unlisted investments, at cost	129,532	137,532

The Company established Biomass Power on 10 December 2018, and injected capital at an amount of RMB8,000,000 on 25 January 2019.

35. COMMITMENTS AND LEASE ARRANGEMENTS

(a) Capital commitments

Capital commitments contracted for as at the end of each of the Relevant Periods but not recognized in the Historical Financial Information are as follows:

Group

	As at 31 December			As at 31 March
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contracted, but not provided for	197,774	195,294	20,467	10,107

As at the end of each of the Relevant Periods, the amounts of the capital commitments are related to the purchase of intangible assets and property, plant and equipment.

(b) Operating lease arrangements – As lessor

The Group leased out its investment properties under operating lease arrangements, with negotiation for terms ranging from one to fifteen years. As at the end of each of the Relevant Periods, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	As at 31 December			As at 31 March
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within one year	569	404	213	168
After one year and within five years	460	556	400	400
After five years	–	958	759	733
	1,029	1,918	1,372	1,301

36. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December			Year ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Provision of services to					
Associates of the Shareholder					
– Datang Changre Jilin Heating Co., Ltd.	–	51,351	–	–	–
Joint venture of the Company					
– FAW Sihuan	4,183	1,533	986	–	–
Fellow subsidiaries					
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	–	–	–	–	591
– Jilin Province Changre Property Limited	–	65	46	–	–
– Jilin Province Heating Group Limited	–	–	8,226	–	–
The Shareholder					
– Changchun Heating Group	263	2,155	39,311	6,761	7,436
	<u>4,446</u>	<u>55,104</u>	<u>48,569</u>	<u>6,761</u>	<u>8,027</u>
Purchases of products from					
Associates of the Shareholder					
– Jilin Province New Model Pipes Co., Ltd.	–	8,976	16,520	–	309
– Jilin Heating Intelligent Equipment Co., Ltd.	–	2,383	8,013	–	3,176
Joint venture of the Company					
– Jilin Hengxin Electricity Co. Ltd., a subsidiary of FAW Sihuan	–	–	1,253	–	–
	<u>–</u>	<u>11,359</u>	<u>25,786</u>	<u>–</u>	<u>3,485</u>
Sales of goods to					
Joint venture of the Company					
– FAW Sihuan	–	–	207	–	–
Fellow subsidiaries					
– Inner Mongolia Changre Heating Group Co. Ltd.	–	–	6	–	–
The Shareholder					
– Changchun Heating Group	–	–	17	–	–
	<u>–</u>	<u>–</u>	<u>230</u>	<u>–</u>	<u>–</u>
Rental expense – short term*					
The Shareholder					
– Changchun Heating Group	–	–	7,158	4,327	–
	<u>–</u>	<u>–</u>	<u>7,158</u>	<u>4,327</u>	<u>–</u>

* Included in the rental expenses in 2018, amounting to RMB5,405,000 was for the rental of Boiler Assets which were derecognized as a distribution to the Shareholder on 1 January 2018.

(b) Other transactions with related parties:

In 2018, the Group entered into two lease agreements for office use with its shareholder, Changchun Heating Group, for which right-of-use assets of RMB1,980,000 were recognized.

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

(c) Outstanding balances with related parties:

The Group's balances with its related parties are as follows:

	As at 31 December		2018	As at 31 March 2019
	2016	2017		
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables due from				
Fellow subsidiaries				
– Jilin Province Changre Property Limited	–	13	–	–
– Jilin Province Heating Group Limited	–	–	1,122	682
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	–	–	81	372
The Shareholder				
– Changchun Heating Group	–	–	39,466	24,973
Joint ventures of the Company				
– FAW Sihuan	1,452	1,923	468	468
	<u>1,452</u>	<u>1,936</u>	<u>41,137</u>	<u>26,495</u>
Other receivables due from				
Fellow subsidiaries				
– Changchun Hi-tech Heating Co., Ltd.	–	72	–	–
– Jilin Province Changre Property Limited	–	375	–	–
– Changchun Runfeng Bath Service Co., Ltd.	4,674	4,690	4,281	4,281
– Jilin Tonghua Heating Group Public Utilities Co., Ltd.	–	224	–	–
– Jilin Heating Group Public Utilities Co., Ltd.	–	220	–	–
– Jilin Meihekou Heating Group Public Utilities Co., Ltd.	–	139	–	–
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	–	389	–	200
– Jilin Yanbianzhou Heating Group Public Utilities Co., Ltd.	–	235	–	–
– Jilin Baicheng Heating Group Public Utilities Co., Ltd.	–	299	–	–
– Jilin Province Heating Group Limited	–	477	–	–
– Inner Mongolia Chuncheng Heating Services Co. Ltd.	–	–	141	–
The Shareholder				
– Changchun Heating Group	10,855	20,462	4,152	28,625
Associates of the Shareholder				
– Jilin Province New Model Pipes Co., Ltd.	–	248	–	–
– Jilin Xinda	–	78,000	–	–
– Datang Changre Jilin Heating Co., Ltd.	–	54	–	–
	<u>15,529</u>	<u>105,884</u>	<u>8,574</u>	<u>33,106</u>

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Contract assets due from				
Fellow subsidiaries				
– Jilin Province Heating Group Limited	–	–	7,911	7,905
– Jilin Province Changre Property Limited	–	–	5	51
Joint venture of the Company				
– FAW Sihuan	–	–	66	66
The Shareholder				
– Changchun Heating Group	–	–	4,728	12,702
	–	–	12,710	20,724
Prepayments to				
Fellow subsidiary				
– Inner Mongolia Chuncheng Heating Services Co. Ltd.	–	–	800	800
	–	–	800	800
Trade payable due to				
Associates of the Shareholder				
– Jilin Province New Model Pipes Co., Ltd.	–	5,838	15,255	9,890
– Jilin Heating Intelligent Equipment Co., Ltd.	–	2,789	5,643	4,629
The Shareholder				
– Changchun Heating Group	–	–	818	908
Joint venture of the Company				
– FAW Sihuan	–	–	1,454	1,430
	–	8,627	23,170	16,857
Other payables due to				
Fellow subsidiaries				
– Jilin Province Changre Property Limited	–	3,065	–	–
– Jilin Tonghua Heating Group Public Utilities Co., Ltd.	–	10,002	–	–
– Jilin Heating Group Public Utilities Co., Ltd.	–	1,038	–	–
– Jilin Meihoukou Heating Group Public Utilities Co., Ltd.	–	22,498	–	–
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	–	38,360	–	–
– Jilin Baicheng Heating Group Public Utilities Co., Ltd.	–	18,002	–	–
– Jilin Tumen Heating Group Public Utilities Co., Ltd.	–	11,741	–	–
– Jilin Yanji Heating Group Public Utilities Co., Ltd.	–	50,286	–	–
– Changchun Xinda	–	43,600	–	–
Associates of the Shareholder				
– Jilin Province New Model Pipes Co., Ltd.	–	–	481	481
– Jilin Heating Intelligent Equipment Co., Ltd.	–	–	600	600
The Shareholder				
– Changchun Heating Group	–	–	2,472	2,291
	–	198,592	3,553	3,372

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Lease liabilities due to				
The Shareholder				
– Changchun Heating Power (Group) Company Limited	–	–	1,330	1,342
	<u>–</u>	<u>–</u>	<u>1,330</u>	<u>1,342</u>
Other borrowings due to:				
An associate of the Shareholder				
– Jilin Xinda	–	103,000	103,000	103,000
A fellow subsidiary				
– Changchun Xinda	–	–	5,000	–
	<u>–</u>	<u>–</u>	<u>5,000</u>	<u>–</u>
	–	103,000	108,000	103,000
	<u>–</u>	<u>103,000</u>	<u>108,000</u>	<u>103,000</u>

Related party balances, including trade receivables due from related parties, contract assets due from related parties, prepayments due from related parties and trade payables due to related parties, are trade in nature.

Related party balances, including other receivables due from related parties, other payables due to related parties and other borrowings due to related parties, are non-trade in nature.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December			As at 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short-term employee benefits	2,135	2,623	2,934	579	525
	<u>2,135</u>	<u>2,623</u>	<u>2,934</u>	<u>579</u>	<u>525</u>

Further details of directors' emoluments are included in Note 10 to the Historical Financial Information.

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

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as “government-related entities”). Changchun Heating Group, the parent of the Company and the ultimate holding company of the Company, is a PRC state-owned enterprise and these government-related entities are also considered as related parties of the Group in this respect.

Apart from the transactions with Changchun Heating Group mentioned above, the Group also conducts some business activities with government-related entities in the ordinary course of business. These transactions are carried out on terms similar to those that would be entered into with non-government-related entities. Transactions with other government-related entities include but are not limited to the following:

- Provision and distribution of heat;
- Maintenance and construction services;
- Purchase of heating resource; and
- Depositing and borrowing money.

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

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

- (i) The Group deposits most of its cash in government-related financial institutions, and also obtains short-term and long-term loans from these financial institutions in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China.
- (ii) Revenue from the provision and distribution of heat and maintenance and construction services to the companies which are government-related entities accounted for 29%, 40%, 21%, 22% and 25% of total revenue in 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively.
- (iii) Significant transactions with government-related entities also included a large portion of heat procurement amounting to RMB181,058,000, RMB198,955,000, RMB312,819,000, RMB129,975,000 and RMB228,125,000 in 2016, 2017 and 2018, and the three months ended 31 March 2018 and 2019, respectively.
- (iv) The Company obtained long-term loans from Changchun Municipal Finance Bureau and Changchun Municipal Public Utilities Bureau in 2016 and 2017 as described in Note 29.
- (v) For the years ended 31 December 2017 and 2018, Changchun Heating Group principally derived the revenue for the construction, maintenance and design services from Jilin Railway Survey and Design Institute Co., Ltd. (吉林鐵道勘察設計有限公司) and China Railway Ninth Bureau Group Fourth Engineering Co., Ltd. (中鐵九局集團第四工程有限公司). The aggregate revenue attributable to them amounted to RMB89,358,000, RMB270,643,000, RMB2,401,000 and RMB17,251,000 for the years ended 31 December 2017 and 2018, and the three months ended 31 March 2018 and 2019, respectively. Please refer to "Relationship with our Controlling Shareholder – Independence from Controlling Shareholder" for details.

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

As at 31 December 2016

Financial assets	Financial assets at amortized cost RMB'000	Total RMB'000
Trade receivables	38,996	38,996
Contract assets	13,186	13,186
Financial assets included in other receivables	32,587	32,587
Restricted bank deposits and time deposits with an initial term of over three months	203,703	203,703
Cash and cash equivalents	746,809	746,809
	<u>1,035,281</u>	<u>1,035,281</u>

Financial liabilities	Financial liabilities at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings – current	140,094	140,094
Lease liabilities	465	465
Financial liabilities included in other payables and accruals	318,207	318,207
Trade payables	240,891	240,891
Interest-bearing bank and other borrowings – non-current	103,553	103,553
	<u>803,210</u>	<u>803,210</u>

As at 31 December 2017

Financial assets	Financial assets at fair value through profit or loss <i>RMB'000</i>	Financial assets at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	–	113,538	113,538
Contract assets	–	109,554	109,554
Financial assets included in other receivables	–	161,452	161,452
Financial assets at fair value through profit or loss	162,013	–	162,013
Restricted bank deposits and time deposits with an initial term of over three months	–	703	703
Cash and cash equivalents	–	481,654	481,654
	<u>162,013</u>	<u>866,901</u>	<u>1,028,914</u>

Financial liabilities	Financial liabilities at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings – current	107,021	107,021
Trade payables	238,276	238,276
Financial liabilities included in other payables and accruals	518,394	518,394
Interest-bearing bank and other borrowings – non-current	159,500	159,500
	<u>1,023,191</u>	<u>1,023,191</u>

As at 31 December 2018

Financial assets	Financial assets at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	200,148	200,148
Contract assets	262,215	262,215
Financial assets included in other receivables	30,800	30,800
Cash and cash equivalents	358,884	358,884
	<u>852,047</u>	<u>852,047</u>

Financial liabilities	Financial liabilities at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings – current	108,000	108,000
Lease liabilities	3,839	3,839
Trade payables	320,814	320,814
Financial liabilities included in other payables and accruals	56,335	56,335
	<u>488,988</u>	<u>488,988</u>

As at 31 March 2019

Financial assets	Financial assets at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	205,522	205,522
Contract assets	133,717	133,717
Financial assets included in other receivables	57,359	57,359
Cash and cash equivalents	197,749	197,749
	<u>594,347</u>	<u>594,347</u>

Financial liabilities	Financial liabilities at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings – current	103,000	103,000
Lease liabilities	3,575	3,575
Trade payables	195,296	195,296
Financial liabilities included in other payables and accruals	58,693	58,693
	<u>360,564</u>	<u>360,564</u>

Company

As at 31 December 2018

Financial assets	Financial assets at amortized cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	30,408	30,408
Financial assets included in other receivables	53,131	53,131
Cash and cash equivalents	305,827	305,827
	<u>389,366</u>	<u>389,366</u>

Financial liabilities	Financial liabilities at amortized cost RMB'000	Total RMB'000
Lease liabilities	1,602	1,602
Trade payables	73,782	73,782
Financial liabilities included in other payables and accruals	90,929	90,929
	<u>166,313</u>	<u>166,313</u>

As at 31 March 2019

Financial assets	Financial assets at amortized cost RMB'000	Total RMB'000
Trade receivables	57,476	57,476
Financial assets included in other receivables	95,652	95,652
Cash and cash equivalents	132,182	132,182
	<u>285,310</u>	<u>285,310</u>

Financial liabilities	Financial liabilities at amortized cost RMB'000	Total RMB'000
Lease liabilities	1,472	1,472
Trade payables	69,718	69,718
Financial liabilities included in other payables and accruals	94,016	94,016
	<u>165,206</u>	<u>165,206</u>

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values and those carried at fair value, are as follows:

	2016		As at 31 December 2017		2018		As at 31 March 2019	
	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000
Financial assets								
Financial assets at fair value through profit or loss	<u>–</u>	<u>–</u>	<u>162,013</u>	<u>162,013</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Financial liabilities								
Interest-bearing bank and other borrowings	<u>243,647</u>	<u>246,008</u>	<u>266,521</u>	<u>269,038</u>	<u>108,000</u>	<u>108,000</u>	<u>103,000</u>	<u>103,000</u>

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

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

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

Fair value hierarchy

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

Assets measured at fair value

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2017				
Financial assets at fair value through profit or loss	–	162,013	–	162,013

The Group did not have any assets measured at fair value as at 31 December 2016 and 2018 and 31 March 2019.

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as the end of each of the Relevant Periods.

During the years ended 31 December 2016, 2017 and 2018 and the period ended 31 March 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 for both financial assets and financial liabilities. The Group's policy is to recognize transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

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

(b) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from borrowings by operating units in currencies other than the units' functional currencies. The currency denominated in these operating units is basically EUR. There is no significant impact on foreign currency risk.

(c) Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

Group

As at 31 December 2016

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	38,996	38,996
Contract assets	–	–	–	13,186	13,186
Financial assets included in prepayments and other receivables					
– Normal**	32,587	–	–	–	32,587
– Doubtful**	–	–	–	–	–
Restricted bank deposits and time deposits with an initial term of over three months					
– Not yet past due	203,703	–	–	–	203,703
Cash and cash equivalents					
– Not yet past due	746,809	–	–	–	746,809
Total	983,099	–	–	52,182	1,035,281

As at 31 December 2017

	12-month ECLs	Lifetime ECLs		Simplified approach	Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	113,538	113,538
Contract assets	–	–	–	109,554	109,554
Financial assets included in prepayments and other receivables					
– Normal**	161,452	–	–	–	161,452
– Doubtful**	–	–	–	–	–
Restricted bank deposits and time deposits with an initial term of over three months					
– Not yet past due	703	–	–	–	703
Cash and cash equivalents					
– Not yet past due	481,654	–	–	–	481,654
Total	643,809	–	–	223,092	866,901

As at 31 December 2018

	12-month ECLs	Lifetime ECLs		Simplified approach	Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	200,148	200,148
Contract assets	–	–	–	262,215	262,215
Financial assets included in prepayments and other receivables					
– Normal**	30,800	–	–	–	30,800
– Doubtful**	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	358,884	–	–	–	358,884
Total	389,684	–	–	462,363	852,047

As at 31 March 2019

	12-month ECLs	Lifetime ECLs		Simplified approach	Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	205,522	205,522
Contract assets	–	–	–	133,717	133,717
Financial assets included in prepayments and other receivables					
– Normal**	57,359	–	–	–	57,359
– Doubtful**	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	197,749	–	–	–	197,749
Total	255,108	–	–	339,239	594,347

Company*As at 31 December 2018*

	12-month ECLs	Lifetime ECLs		Simplified approach	Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	30,408	30,408
Financial assets included in prepayments and other receivables					
– Normal**	53,131	–	–	–	53,131
– Doubtful**	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	305,827	–	–	–	305,827
Total	358,958	–	–	30,408	389,366

As at 31 March 2019

	12-month ECLs	Lifetime ECLs		Simplified approach	Total
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	57,476	57,476
Financial assets included in prepayments and other receivables	–	–	–	–	–
– Normal**	95,652	–	–	–	95,652
– Doubtful**	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	132,182	–	–	–	132,182
Total	227,834	–	–	57,476	285,310

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in Note 21 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

(d) Liquidity risk

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

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

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

Group

As at 31 December 2016

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	465	–	–	–	465
Trade payables	–	240,891	–	–	240,891
Other payables and accruals	–	318,207	–	–	318,207
Interest-bearing bank and other borrowings	60,000	83,468	66,474	54,003	263,945
	60,465	642,566	66,474	54,003	823,508

As at 31 December 2017

	On demand <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	–	238,276	–	–	238,276
Other payables and accruals	–	518,394	–	–	518,394
Interest-bearing bank and other borrowings	100,000	19,860	132,361	48,788	301,009
	<u>100,000</u>	<u>776,530</u>	<u>132,361</u>	<u>48,788</u>	<u>1,057,679</u>

As at 31 December 2018

	On demand <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	–	320,814	–	–	320,814
Other payables and accruals	–	56,335	–	–	56,335
Interest-bearing bank and other borrowings	–	115,477	–	–	115,477
Lease liabilities	–	1,535	2,493	–	4,028
	<u>–</u>	<u>494,161</u>	<u>2,493</u>	<u>–</u>	<u>496,654</u>

As at 31 March 2019

	On demand <i>RMB'000</i>	Within 1 year <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	–	195,296	–	–	195,296
Other payables and accruals	–	58,693	–	–	58,693
Interest-bearing bank and other borrowings	–	107,929	–	–	107,929
Lease liabilities	–	1,493	2,127	–	3,620
	<u>–</u>	<u>363,411</u>	<u>2,127</u>	<u>–</u>	<u>365,538</u>

Company*As at 31 December 2018*

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	–	73,782	–	–	73,782
Other payables and accruals	–	90,929	–	–	90,929
Lease liabilities	–	634	1,127	–	1,761
	–	165,345	1,127	–	166,472

As at 31 March 2019

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	–	69,718	–	–	69,718
Other payables and accruals	–	94,016	–	–	94,016
Lease liabilities	–	653	1,027	–	1,680
	–	164,387	1,027	–	165,414

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, or return capital to shareholders. No changes were made in the objectives, policies and processes during the years ended 31 December 2016, 2017 and 2018, and the three months ended 31 March 2019.

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

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

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Interest-bearing bank and other borrowings	243,647	266,521	108,000	103,000
Less: Cash and cash equivalents	(746,809)	(481,654)	(358,884)	(197,749)
Net debt	<u>(503,162)</u>	<u>(215,133)</u>	<u>(250,884)</u>	<u>(94,749)</u>
Total equity	<u>443,478</u>	<u>292,729</u>	<u>502,316</u>	<u>630,696</u>
Total equity and net debt	<u>(59,684)</u>	<u>77,596</u>	<u>251,432</u>	<u>535,947</u>
Net debt to total equity and net debt ratio	843%	(277%)	(100%)	(18%)

The Group did not breach any financial covenants during the financial years ended 31 December 2016, 2017 and 2018, and the three months ended 31 March 2019.

40. EVENTS AFTER THE REPORTING PERIOD

On 30 August 2019, the Group received a revolving one-year banking facility from a local bank amounting to RMB500,000,000 of which RMB10,715,000 has been drawn down in September 2019 to finance the working capital with a fixed interest rate of 4.35% per annum.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its subsidiaries now comprising the Group in respect of any period subsequent to 31 March 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this listing document, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the "Accountants' Report" set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the HKICPA is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2019 as if it had taken place on 31 March 2019.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 31 March 2019 or at any future dates following the Global Offering. It is prepared based on the consolidated net tangible assets of our Group as at 31 March 2019 as set out in the Accountants' Report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report.

	Consolidated net tangible assets attributable to owners of our Company as at 31 March 2019 ⁽¹⁾ RMB'000	Estimated net proceeds from the Global Offering ⁽²⁾ RMB'000	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾⁽⁵⁾ RMB HK\$	
Based on the Offer Price of HK\$1.90 per Offer Share	<u>626,865</u>	<u>147,721</u>	<u>774,586</u>	<u>1.66</u>	<u>1.84</u>
Based on the Offer Price of HK\$2.50 per Offer Share	<u>626,865</u>	<u>209,446</u>	<u>836,311</u>	<u>1.79</u>	<u>1.98</u>

Notes:

- (1) The consolidated net tangible assets attributable to owners of our Company as at 31 March 2019 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the consolidated net assets of our Group attributable to owners of our Company as at 31 March 2019 of approximately RMB630.7 million with an adjustment for the intangible assets of RMB3.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.90 per Offer Share or HK\$2.50 per Offer Share, being the low-end price or high-end price after deduction of the estimated underwriting fees and other related expenses payable by our Company and takes no account of any Share which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1.00 to RMB0.9042.
- (3) The unaudited pro forma adjusted net tangible assets per Share has been arrived at after having made the adjustments referred to in the preceding paragraphs and on the basis of a total of 466,700,000 Shares were in issue assuming that Global Offering has been completed as at 31 March 2019, excluding Shares which may be issued upon the exercise of the Over-allotment Options.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB0.9042. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa at that rate or at any other rates or at all.
- (5) No adjustment has been made to reflect any trading results or other transactions entered into by our Group subsequent to 31 March 2019.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Jilin Province Chuncheng Heating Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Jilin Province Chuncheng Heating Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 March 2019, and related notes as set out on pages II-1 to II-2 of the prospectus dated 27 September 2019 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II to the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of Global Offering of the Company on the Group’s financial position as at 31 March 2019 as if the transaction had taken place at 31 March 2019. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended 31 March 2019, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the Global Offering on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

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

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

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

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

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

27 September 2019

This appendix contains a summary of laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

TAXATION IN THE PRC

Taxation on Dividends

Individual investors

According to the IIT Law, which was last amended on 31 August 2018 and implemented on 1 January 2019, and the Regulations on Implementation of the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例), which was last amended on 18 December 2018 and implemented on 1 January 2019 dividends paid by the PRC companies to individuals are subject to individual income tax at a tax rate of 20%.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No. 045 (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) promulgated by the State Administration of Taxation on 28 June 2011, for a foreign individual shareholder who is not a PRC resident, the receipt of dividends on the H Shares is subject to a withholding tax ranging from 5% to 20% (usually 10%) according to the applicable tax treaty between the PRC and the jurisdiction where the nationality of the foreign individual shareholder resides. For foreign residents of jurisdictions that have not entered into any tax treaty with the PRC, the tax rate on dividends should be 20%.

Generally, if no application has been submitted to the applicable tax authorities according to the treaties, a tax rate of 10% shall be applied to the dividends paid by any company on shares listed in Hong Kong that are sold by foreign individuals. In case the tax rate of 10% is not applicable, the withholding company shall: (i) return the excessive amount of tax if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at an applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

Enterprise investors

In accordance with the EIT Law, which was amended on 29 December 2018 and implemented on the same date, and the Implementation Rules of the EIT Law, which was implemented on 1 January 2019, a non-resident enterprise is generally subject to a 10% withholding income tax on PRC-sourced income, if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC.

Pursuant to Further Clarification on the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident

Enterprises (國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知進一步澄清), which became effective on 6 November 2008, a PRC resident enterprise must withhold EIT at the rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H shares with respect to the dividends distributed out of profit generated after 1 January 2008. The non-resident enterprise shareholders entitled to a reduced tax rate under tax treaties or arrangements may apply to the competent tax authorities for refund of the excess amount withheld. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion in respect of income taxes signed by the Mainland China and Hong Kong on 21 August 2006, a PRC resident enterprise which distributes dividends to its Hong Kong shareholders shall pay income tax according to the laws of the PRC, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds not less than 25% equity of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be not more than 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity of the aforesaid enterprise, the tax levied shall be not more than 10% of the distributed dividends.

Furthermore, pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and became effective from 20 February 2009, where a Chinese resident company pays dividends to a fiscal resident of the other contracting party to a tax agreement, the fiscal resident may pay the tax on the dividends obtained based on the tax rate stipulated under the tax agreement, subject to the followings: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) the owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident should reach a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, should reach a percentage specified in the tax agreement.

In addition, according to the Administrative Measures for Non-residents to Enjoy the Treatments of Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法) which was promulgated by the State Administration of Taxation and came into force on 1 November 2015, non-resident tax payer who is qualified for any preferential treatment under any agreement is entitled to such preference treatment automatically upon tax declaration or, through withholding obligator, upon withholding declaration, and shall be subject to subsequent administration by the competent tax authority. For a non-resident enterprise (as defined under the Tax Laws of the PRC) that receives dividends from a PRC resident enterprise, it shall submit the relevant reports and information on the first declaration of tax or, through withholding obligator, on the first declaration of withholding for the corresponding taxation year. Upon satisfaction of all the conditions for the preferential treatment and where there is no change on the information reported, the non-resident tax payer should enjoy a waiver of re-submission of related information to the same competent tax authority for the same preferential treatment for three calendar years from the year during which the reports and information are submitted.

Taxation of Capital Gains***Individual investors***

Under the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the Ministry of Finance and the State Administration of Taxation on 30 March 1998, from 1 January 1997 onwards, income of individuals from the transfer of shares in listed enterprises shall continue to be exempted from individual income tax. In the IIT Law and its latest implementation regulations, the State Administration of Taxation has not stated whether it will continue to grant the exemption of IIT on income derived by individuals from the transfer of listed shares. However, the Ministry of Finance, the State Administration of Taxation and the CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) on 31 December 2009, which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the IIT, except for the shares of certain specified companies under certain situations which are subject to sales limitations. As of the Latest Practicable Date, no legislation has expressly provided that IIT shall be levied from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, such as our H Shares, and in practice the taxation administrations do not collect IIT on such income.

Enterprise investors

In accordance with the EIT Law and the Implementation Rules of the EIT Law, a non-resident enterprise is generally subject to withholding tax at a rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. As of the Latest Practicable Date, no legislation has expressly provided that withholding tax shall be collected from non-resident enterprises on their income derived from sale of the shares in PRC companies listed on overseas stock exchange. However, the possibility cannot be entirely excluded that taxation authorities will seek to collect withholding tax on such income in the future.

Estate Tax

Currently, no estate tax is imposed by the PRC Government.

EIT

The EIT Law and the Implementation Rules of the EIT Law provide that the EIT rate applicable to all enterprises, resident or non-resident, shall be 25% generally, while some of the high-tech enterprises enjoy the preferential enterprise income tax rate of 15%. According to the Administrative Measures on Accreditation of High-tech Enterprises (高新技術企業認定管理辦

法) enacted on 29 January 2016 and effective from 1 January 2016, high-tech enterprises may apply for the preferential tax treatment in accordance with the EIT Law, the Law of the People's Republic of China on the Administration of Tax Collection (中華人民共和國稅收徵收管理法) which was effective on 24 April 2015 and the Rules for the Implementation of the Law of the People's Republic of China on the Administration of Tax Collection (中華人民共和國稅收徵收管理法實施細則) which came into force on 6 February 2016.

Value Added Tax

Interim Regulation of the People's Republic of China on Value Added Tax (中華人民共和國增值稅暫行條例) was enacted and became effective on 19 November 2017, and the Detailed Rules for the Implementation of the Interim Regulation of the People's Republic of China on Value Added Tax (中華人民共和國增值稅暫行條例實施細則) was announced on 18 December 2008, amended on 28 October 2011 and came into force on 1 November 2011 (collectively the “**VAT Law**”). According to the VAT law, all enterprises and individuals selling goods, providing processing, repairing and importing goods are liable to VAT. VAT payable to the general taxpayer who engages in sale or import of goods shall be subject to the VAT at a rate of 17%.

In accordance with the Pilot Plan for Levying Value Added Tax in Lieu of Business Tax (Cai Shui [2011] No. 110) (營業稅改徵增值稅試點方案(財稅[2011]110號)) enacted on 16 November 2011, and the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知(財稅[2016]36號)) promulgated on 23 March 2016, on 1 January 2012 and onwards, the business tax chargeable on the pilot businesses within the pilot areas shall be changed to VAT. Thus, all income of companies and individuals deriving from sale of services, intangible assets or immovable properties within the territory of the PRC shall pay VAT to the State Administration of Taxation. Based on the above requirements, the then VAT rates of 17% and 13% were lowered to 11% and 6% respectively. For example, transportation and construction industries are subject to a rate of 11%, and other modern service industry are subject to a rate of 6%.

The previous VAT rates have been further adjusted since 1 May 2018 according to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32) (財政部、稅務總局關於調整增值稅稅率的通知(財稅[2018]32號)) promulgated on 4 April 2018. For example, for taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable 11% tax rate has been adjusted to 10%.

TAXATION IN HONG KONG**Tax on Dividends**

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. However, trading gains from the sale of H Shares by persons engaging in trading, professional services or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trading, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15%. Gains from sales of the H Shares on the Hong Kong Stock Exchange will be considered as income derived from or arose in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Share on the Hong Kong Stock Exchange by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. It is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the market value of, the H Shares transferred to or from each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer of H share (if required). Where a sale or purchase of the H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the stamp duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. The SAFE, under the authority of the PBOC, administers all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

The principal regulations governing foreign currency exchange in the PRC are Regulation of the People's Republic of China on Foreign Exchange Administration (中華人民共和國外匯管理條例) (the “**Foreign Exchange Regulations**”), promulgated by the State Council in 1996 and amended in 1997 and 2008. Under the Foreign Exchange Regulations, Renminbi is freely convertible for current account items, such as trade and service-related foreign exchange transactions and unilateral transfers, on a basis of true and lawful transactions; as for capital account items, such as direct investment, loans, and portfolio investment, prior approval of, or registration with, SAFE is required. Pursuant to the Rules on Administration of Settlement, Sale and Payment of Foreign Exchange Provisions (結匯、受匯及付匯管理規定), issued by the PBOC on 20 June 1996 and effective from 1 July 1996, enterprises in the PRC may purchase foreign currency, subject to a cap approved by SAFE, to settle current account transactions, without the approval from SAFE. Foreign exchange transactions under capital account are still subject to limitations and require approvals from or registrations with SAFE.

The PBOC announced that, beginning from 21 July 2005, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on supply and demand and with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar only. The PBOC will publish the closing price of the Renminbi against foreign currencies such as the U.S. dollar in the inter-bank foreign exchange market after the closing of the market on each Business Day, which will be used as the middle price for Renminbi transactions on the following Business Day.

Starting from 4 January 2006, the PBOC has authorized China Foreign Exchange Trading Center to publish the middle price for the exchange of Renminbi to the U.S. dollar, euro, Japanese yen and Hong Kong dollar at 9:15 a.m. on each Business Day, which will be used as the middle price of exchange rates for transactions in inter-bank spot foreign exchange market (including over the counter and automatic price-matching transactions) and bank counter transactions.

On 26 December 2014, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知). According to the notice, after a domestic company gets listed overseas, any of its domestic shareholders intends to increase or decrease its shares in the company in accordance with the relevant provisions, such domestic shareholder shall, within 20 working days before such increase or decrease, handle overseas shareholding registration formalities with the local foreign exchange authority.

This Appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities law and regulations. It also contains a summary of certain Hong Kong law and regulations, including summaries of certain material differences between the PRC and Hong Kong company law, certain requirements of the Listing Rules and the summary of additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers (as defined in the Listing Rules).

PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the Constitution of the People's Republic of China (中華人民共和國憲法) (the "PRC Constitution") and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of the State Council departments, rules and regulations of local governments and international treaties of which the PRC Government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purposes of judicial reference and guidance.

Pursuant to the PRC Constitution and the Legislation Law of the People's Republic of China (中華人民共和國立法法), the NPC and the standing committee of the NPC (the "Standing Committee") are empowered to formulate and amend basic laws governing state organs, civil and criminal or other matters. The Standing Committee enacts and amends laws other than those that shall be formulated by the NPC, and during the period of adjournment of the NPC, the Standing Committee may partially supplement and amend the laws enacted by the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the constitution and laws.

The People's Congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the requirements of constitution, laws and administrative regulations. The People's Congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and take the same effect after submitting to the standing committee of the People's Congresses of provinces or autonomous regions for approval. The standing committee of the People's Congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the People's

Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the People's Congresses of provinces or autonomous regions, a decision should be made to deal with the matter. "Larger cities" refers to cities where the People's Governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The ministries, commissions, the PBOC, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Matters governed by the departmental rules and regulations should be those for the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The People's Governments of provinces, autonomous regions, municipalities and larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

Pursuant to the PRC Constitution, the power to interpret laws is vested in the Standing Committee. Pursuant to the Resolution of the Standing Committee of the National People's Congress Providing an Improved Interpretation of the Law (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10 June 1981, the Supreme People's Court is empowered to provide general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which have promulgated such laws, regulations and rules.

The PRC Judicial System

Pursuant to the PRC Constitution and the Law of the People's Republic of China on the Organization of People's Courts (中華人民共和國人民法院組織法), the judicial system in the PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further organized into civil, criminal, and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division.

The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all

of the people's courts. The people's courts adopt the "second instance as final" appellate system. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or orders given at the next higher level are final and legally binding. First judgments or orders of the Supreme People's Court are also final. Where the Supreme People's Court or a people's court at a higher level finds an error in a judgment or order which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment or order, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the People's Republic of China (中華人民共和國民事訴訟法) (the "Civil Procedure Law"), which was promulgated on 9 April 1991, last amended on 27 June 2017 and revived on 1 July 2017, sets out the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Where a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. Where any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. Where a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

Where a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who's not located within the territory of the PRC or whose property is not within the PRC, such party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or where the judgment or ruling satisfies the court's examination in accordance with the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

The PRC Company Law, Special Regulations and Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and became effective on 1 July 1994. It was last amended on 26 October 2018 and came into effect on 26 October 2018.

The Special Provisions of the State Council on Stock Floatation and Listing Abroad by limited Stock Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) (the “**Special Provisions**”) were adopted at the 22nd Standing Committee Meeting of the State Council on 4 August 1994. The Special Provisions was formulated according to Article 85 and Article 155 of the PRC Company Law and are applicable to the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions were promulgated by the former Securities Commission of the State Council and the State Economic System Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association.

General provisions

A “limited stock company” (“**a company**”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Incorporation

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, provided that at least half of the promoters must have domicile in the PRC. A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

The PRC Company Law provides that for companies incorporated by way of promotion, its registered capital shall be the total share capital subscribed by all of its promoters as recorded in the company registration authority. No shares shall be offered to any other person before the shares subscribed by the promoters are paid up. Where otherwise provided for in any other laws, administrative regulations and decisions of the State Council in respect of the actual paid-in registered capital and the minimum registered capital for joint stock limited companies, the provisions thereof shall prevail.

Pursuant to the Securities Law, the total capital of a company which proposes to apply for its shares to be listed on a stock exchange shall not be less than RMB30.0 million.

The promoters shall convene an establishment meeting within thirty (30) days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the establishment meeting fifteen (15) days prior to the meeting. The establishment meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the establishment meeting include adoption of the drafted articles of association proposed by the promoters and election of the board of directors and the board of supervisors of the company. Any resolution of the meeting shall be approved by subscribers holding more than half of the voting rights of those present at the meeting.

Within thirty (30) days after the conclusion of the establishment meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business license has been issued.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

According to the Interim Administrative Regulation on Share Issuing and Trading (股票發行與交易管理暫行條例) promulgated by the State Council on 22 April 1993 (which is only applicable to the issue and trading of shares and relevant activities in the PRC), if a company is incorporated by means of public subscription, the promoters of the company are required to assume joint liability for the accuracy of the contents of this document and to ensure that this document does not contain any misleading statement or omission of any material information.

Share capital

Where a joint stock limited company is established by way of promotion, the promoters shall fully subscribe in writing for the shares and pay the corresponding capital provided for in its articles of association. In the case of capital contributions made by means other than in cash, the promoters shall go through the relevant procedures for the transfer of property rights in accordance with the law. There is no limit under the PRC Company Law as to the percentage of shares held by an individual shareholder in a company. If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, overseas listed shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan are defined as overseas-listed-foreign-invested shares, and those issued to investors within the PRC other than the aforementioned areas are defined as domestic shares. Qualified foreign institutional investors approved by CSRC may hold domestic listed shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. According to the Special Regulations, upon the approval of CSRC, a company may agree, in the underwriting agreement on issuing overseas-listed-foreign-invested shares, to retain not more than 15% of the aggregate amount of underwritten shares. The share offering price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by laws or by administrative regulations. Bearer shares are transferred by delivery of the H share certificates to the transferee.

No modification of registration shall be made to the registrar of shareholders within twenty (20) days prior to the shareholders' meeting being held or within five (5) days prior to the benchmark date set for the purpose of distribution of dividends.

Increase in capital

Pursuant to the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders at the general meeting. Except for above-mentioned conditions of obtaining approval at the general meeting required by the PRC Company Law, the Securities Law requires the following conditions must be satisfied for a company which intends to offer new shares to the public: (i) a complete and well-operating organization; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three fiscal years; and (iv) fulfilling any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council. The public offer requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirement, a company may reduce its registered capital in accordance with the following procedures stipulated by the PRC Company Law:

- the company shall prepare a balance sheet and a list of properties;
- the reduction of registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction of capital within ten days, and publish an announcement in respect of the reduction in newspapers within thirty (30) days upon passing of the resolution approving the reduction of capital;
- creditors of the company may require the company to settle its debts or provide corresponding guarantees within the statutory time limit; and
- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction of registered capital.

Repurchase of shares

A company may not purchase its own shares unless for one of the following purposes:

- to reduce its registered capital;

- to grant shares as a reward to the staff of the company;
- necessary for a listed company to maintain its corporate value and shareholders' equity;
- plans to merge with a company which is one of its existing shareholders;
- use to convert corporate bonds issued by a listed company that can be converted into stocks;
- to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; or
- other purposes permitted by laws and administrative regulations.

The shares repurchased by the company as a reward to its staff shall not exceed 10% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares so repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant regulatory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through over the counter contract.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in legally established stock exchanges by other means as stipulated by the State Council. Registered shares may be transferred by endorsement or in any other manner specified in applicable laws and regulations.

Shares held by the promoter(s) of a company shall not be transferred within one (1) year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one (1) year from the date of its shares being listed on a stock exchange. Directors, Supervisors and senior management of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one (1) year from the Listing Date.

Shareholders

Pursuant to the PRC Company Law and the Mandatory Provisions, a shareholder's rights include:

- the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;
- the right to attend, in person or by proxy, the shareholders' general meeting and to vote in respect of the number of shares held;
- the right to inspect the company's articles of association, shareholders' registers, records of short-term debentures, minutes of shareholders' general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;
- where a resolution approved in the shareholders' general meeting or by the board of directors violates any law or regulation, or infringes on the shareholders' lawful rights and interests, the right to institute an action in a people's court demanding that the illegal infringing action be stopped;
- the right to obtain surplus assets of the company upon its termination in proportion to his/her shareholdings; to claim against other shareholders who abuse their rights of shareholders for any damage so caused;
- the right to receive dividends based on the number of shares held; and
- any other shareholders' rights specified in the articles of association.

The obligations of shareholders include:

- to comply with the articles of association of the company;
- to pay the subscription monies in respect of shares subscribed for;
- be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up;
- no abuse of shareholders' rights to prejudice the interests of the company or other shareholders of the company; no abuse of the independent status of the company as a legal person and a limited liability company to prejudice the interests of the creditors of the company; and
- any other obligation specified in the articles of association of the company.

Shareholders' general meeting

The shareholders' general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the PRC Company Law. The shareholders' general meeting exercises the following functions and powers:

- to decide on operational policies and investment plans of the company;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the board of supervisors or the supervisors;
- to review and approve annual financial budgets and financial accounts proposed by the company;
- to review and approve proposals for profit distribution and for recovery of losses of the company;
- to decide on increase and reduction of the registered capital of the company;
- to decide on bond issuances of the company;
- to decide on merger, division, dissolution and liquidation of the company and other issues;
- to amend the articles of association of the company; and
- other functions and powers specified in the articles of association of the company.

The annual shareholders' general meeting must be convened once a year. An extraordinary shareholders' general meeting shall be held within two months upon the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the articles of association of the company;
- the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;

- as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;
- when deemed necessary by the board of directors;
- as suggested by the board of supervisors; or
- other matters required by the articles of association.

The shareholders' general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors. The notice to convene the shareholders' general meeting, in which matters to be reviewed and considered are stated, shall be despatched to all the shareholders twenty (20) days prior to the general meeting pursuant to the PRC Company Law, and forty-five (45) days prior to the general meeting pursuant to the Special Regulations and the Mandatory Provisions. Under the Special Regulations and the Mandatory Provisions, shareholders intending to attend the meeting are required to send written confirmations of their attendance to the company twenty (20) days before the general meeting.

According to the Special Regulations, at the annual shareholders' general meeting of the company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions, which if within the functions and powers of the shareholders' general meeting, are required to be added to the agenda of the general meeting. Shareholders present at the shareholders' general meeting possess one vote for each share they hold. However, the company shall have no vote for any of its own shares. Resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as merger, division or reduction of registered capital, the issue of bonds or short-term debentures, the change in the form of the company or the amendment to the articles of association, shall be approved by shareholders present (including those represented by proxies) at the general meeting with more than two-thirds of the voting rights. A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the scope of the authorization. There is no specific provisions in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received twenty (20) days before the date of meeting, or where the 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or abolition of the rights of a class of shareholders.

Holders of domestic invested shares and holders of overseas-listed-foreign-invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms upon reelection.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors at least ten (10) days before the meeting.

Under the PRC Company Law, the board of directors shall exercise the following functions and powers:

- to convene the shareholders' general meeting and report on its work to the shareholders;
- to implement the resolution of the shareholders' general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds; to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors could be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Where a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization for another director to attend the meeting on his behalf.

Where a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, where it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offense of corruption, bribery, conversion of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five (5) years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five (5) years have elapsed since the date of the completion of implementation of this deprivation;
- persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and liquidated, and those persons who are personally liable for the bankruptcy of such company or enterprise, where less than three (3) years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable in this regards, and less than three (3) years have elapsed since the date of the revocation of the business license; or
- persons who have a relatively large amount of debt due and outstanding; or other circumstances under which a person is disqualified from acting as a director of a company as set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors shall exercise the following functions and powers, including but not limited to:

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the company's articles of association, may be the chairman, any executive director or the manager. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to take advantage of their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix V) contains further discussion of such duties.

Supervisor

A joint stock limited company shall establish a board of supervisors comprised of no less than three members. The board of supervisors shall include shareholders' representatives and an appropriate proportion of employee representatives. The proportion of employee representatives shall be specified in the articles of association but in any event shall account for no less than one-third of the supervisors appointed. Employee representatives who serve as members of the board of supervisors shall be democratically elected through the employee representatives' assembly, the employees' assembly or in any other way.

No director or senior management of a company may concurrently act as one of its supervisors.

The Board of Supervisors shall exercise the following functions and powers:

- to check the financial affairs of the company;
- to supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior management who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting; to require the director or senior management to make corrections if his act is detrimental to the interests of the company;

- to propose the convening of extraordinary shareholders' general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- to put forward proposals at shareholders' general meetings;
- to initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

Managers and senior management

A company shall have a manager who shall be appointed or removed by the board of directors. The manager reports to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

Pursuant to the PRC Company Law, other senior management of a company include the financial officers, secretary of the board of directors and other executives as specified in the articles of association of the company. The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and

officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company.

Duties of directors, supervisors, managers and senior officers

Directors, supervisors, managers and other senior officers of a company are required under the PRC Company Law to abide by the relevant laws, regulations and the company's articles of association, to carry out their duties honestly and protect the interests of the company. Each director, supervisor, manager and senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any directors, supervisors, managers and other senior officers who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to take advantage of their positions in the company for their own benefit.

No director or senior management may:

- misappropriate company's funds;
- divert company's funds into an account held in his own name or in the name of any other individual;
- lend out company's funds or provide any guarantee to any other person by using company's property in violation of the articles of association without obtaining consent from the board of shareholders, at the general meeting of shareholders or from the board of directors;
- become a party to any contract or business dealings with the company in violation of the articles of association without obtaining the consent from the board of shareholders or at the general meeting of shareholders;
- seek business opportunities for himself or for any other person by taking advantage of his position, or operate on his own behalf or on behalf of any other person any business similar in nature to that of the company; personally accept any commission on any transaction to which the company is a party, without obtaining the consent from the board of shareholders or at the general meeting of shareholders;

- unlawfully disclose confidential information of the company; or
- act in any way that is inconsistent with his duty of fidelity to the company. Any income received by any director or senior management in violation of the Articles of Association shall be treated as the property of the company.

Finance and accounting

A company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and the regulations of the competent financial department of the State Council. A company shall prepare a financial report which shall be audited and verified as required by law at the end of each fiscal year.

A company shall make available its financial statements for the inspection by the shareholders at least twenty (20) days before the convening of the annual general meeting of shareholders. A company established by way of public subscription must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' meeting or the shareholders' general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profits. If the aggregate balance of the company's statutory surplus reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making good the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and statutory surplus reserves have been set aside, the remaining profits shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association.

The capital common reserve of a joint stock limited company is made up of the premium over the issue price, i.e. the nominal value of the shares issue of the company, and other income which should be included into the capital reserve as required by the financial department of the State Council.

A company's common reserves shall be used to cover losses incurred the previous years, to enhance the company's productivity and expand its business or to increase its registered capital; however a company's capital reserve shall not be used to cover the company's losses. Where the statutory common reserve is converted into capital, the value of the remaining common reserve shall be no less than 25% of the company's registered capital prior to the conversion.

Appointment and retirement of auditors

The Special Regulations require a company to engage an independent qualified accounting firm to conduct auditing of the company's annual reports and to review and check other financial reports of the company.

Any proposed appointment or dismissal of an accounting firm as the company's auditor shall be subject to approval by passing of resolution at the board of shareholders, the general meeting of shareholders or of the board of directors in accordance with the provisions of the articles of association.

Any shareholders' meeting, general meeting of shareholders or board of directors that votes to dismiss any accounting firm as its auditor shall allow the accounting firm to express its own opinions.

A company shall provide the accounting firm appointed as its auditor with accurate and complete accounting books and records, financial and accounting statements, and other accounting documents, and may not refuse to do so or conceal any such accounting records or make any false statement to its auditor.

Profit distribution

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas-listed-foreign-invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendment to the company's articles of association must be made in accordance with the procedures set out in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the company examination and approval department of the State Council and CSRC. In relation to matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

Dissolution and liquidation

Where any company encounters serious operational or management difficulties, its continuous existence will lead to significant losses to the shareholder and the situation cannot be resolved by any other mean, shareholders representing 10% or more of the voting rights of all shareholders may submit petition the people's court for dissolution of the company.

Pursuant to the PRC Company Law, a company may be dissolved where:

- (a) its term of business operation as prescribed in the articles of association expires or any cause of dissolution as prescribed in the articles of association of the company occurs;
- (b) the board of shareholders or the general meeting resolves to dissolve the company;
- (c) dissolution of the company is necessary due to any merger or demerger to which the company is a party;
- (d) its business license is revoked or it is ordered to close down or be dissolved in accordance with the law; or
- (e) Where any company encounters serious operational or management difficulties, its continuous existence will lead to significant losses to the shareholder and the situation cannot be resolved by any other mean, shareholders representing 10% or more of the voting rights of all shareholders may submit petition the people's court for dissolution of the company.

Where the company is dissolved due to the circumstances described in (a), (b), (d) and (e) above, a liquidation committee must be formed within fifteen (15) days from the date of dissolution. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment. A liquidation committee shall, within ten days from its formation, notify the company's creditors of its formation, and shall make a public announcement in a newspaper in this regard within sixty (60) days from its formation. Any creditor shall, within thirty (30) days upon receipt of the notice or, in case the relevant creditor does not receive any notice, within forty-five (45) days after the public announcement, initiate a claim against the liquidation committee on the debt owed to it/him.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- liquidate the company's assets and to prepare a balance sheet and a list of properties;
- notify creditors or issue public announcement;
- deal with and settle any outstanding business of the company;
- pay any tax overdue;
- settle the company's financial claims and liabilities;
- handle any surplus assets of the company upon pay-off of its debts; and
- act on behalf of the company in any civil lawsuit.

Where the company's properties are sufficient to settle its liabilities, they shall be applied to the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus asset shall be distributed to the shareholders of the company in proportion to their shareholdings.

A company shall not engage in any operating activity which is unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient properties to settle its liabilities, it must immediately apply to the people's court for a declaration of bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public announcement in this regard shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his willful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with the procedures specified by the State Council.

Loss of H share certificates

In accordance with the relevant provision set out in the Civil Procedure Law, in the event that H share certificates in registered form are either stolen or lost, a shareholder may apply to a people's court for a declaration for voiding of such certificate. Upon the declaration, the shareholder may apply to the company for the issue of certificate as replacement.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates.

Suspension and termination of listing

Pursuant to the Securities Law, in any of the following circumstances, the relevant stock exchange shall decide to suspend the listing of the relevant stock:

- the market capitalization or share ownership structure of the company changes, thus causing violation of the listing requirements by the company;
- the company fails to publicly disclose its financial status as required, or includes any false record in its financial and accounting reports which may mislead investors;
- the company commits any serious illegal activity;
- the company has recorded losses for the last three consecutive years; or
- any other circumstances prescribed in the Listing Rules.

In any of the following circumstances, the relevant stock exchange shall decide to terminate the listing of the relevant stock:

- the market capitalization or share ownership structure of the company changes, thus causing violation of the listing requirements by the company, and the company subsequently fails to satisfy listing requirements within the period of time prescribed by the stock exchange;
- the company fails to publicly disclose its financial status as required, or includes any false record in its financial and accounting reports, and refuses to take any remedial measure;

- the company has recorded losses for the last three consecutive years and fails to make a profit in the following year;
- the company is dissolved or declared bankrupt; and
- any other circumstances prescribed in the Listing Rules.

Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. Where it merges by absorption, the company which is absorbed shall be dissolved. Where it merges by forming a new corporation, both companies will be dissolved.

Securities Law and Regulations and Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of relevant securities laws and regulations, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis.

On 25 December 1995, the State Council promulgated Provisions of the State Council on Domestic Listing of Foreign-oriented Stocks by Share-holding Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations mainly governs the issue, subscription, trading, dividend declaration and other distributions of domestic-listed foreign-invested shares and the disclosure of information of joint stock limited liability companies having domestic-listed foreign-invested shares.

On 29 December 1998, the Standing Committee promulgated the Securities Law which came into effect on 1 July 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. The Securities Law was revised on 28 August 2004, 27 October 2005, 29 June 2013 and 31 August 2014, respectively. The Securities Law is applicable to the issuance and trading of shares in the PRC, company bonds and other securities designated by the State Council according to law, governing the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council.

For the areas where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations shall prevail.

Arbitration and enforcement of arbitral awards

The Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) (the “**Arbitration Law**”) was promulgated by the Standing Committee on 31 August 1994, and was amended on 1 September 2017 and revived on 1 January 2018. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to settle disputes by arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Where parties have by agreement decided arbitration as the method for dispute settlement, the people's court shall refuse to handle the proceeding.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, in a contract between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between: (i) a holder of overseas listed foreign-invested shares and the company; (ii) a holder of overseas listed foreign-invested shares and a holder of domestic shares; or (iii) a holder of H shares and the company's directors, supervisors or other management, such parties shall be required to refer such dispute or claim to arbitration at either the China International Economic and Trade Arbitration Commission (“**CIETAC**”) or the Hong Kong International Arbitration Center (“**HKIAC**”). If the party seeking arbitration elects to settle the dispute or claim through arbitration at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of HKIAC.

Pursuant to the Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration proceeding. Where any party fails to comply with the award, the other party may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there's any procedural irregularity (including irregularity in the composition of the arbitration committee, the making of an award on matters beyond the scope of the arbitration agreement or jurisdiction of the arbitration commission).

A party seeking to enforce an arbitral award by a PRC arbitration panel against a party who, or whose property, is not within the territory of PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts pursuant to the principles of the reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (承認和執行外國仲裁裁決公約) (the “**New York Convention**”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their

rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the New York Convention, the Standing Committee declared that:

- the PRC will only recognize and enforce foreign arbitral awards based on the principle of reciprocity; and
- the PRC will only apply the New York Convention to disputes deemed under PRC laws to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on 18 June 1999, approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. The arrangement reflects the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and vice versa.

HONG KONG LAWS AND REGULATIONS

Summary of Material Differences on Certain PRC Company Law Matters between the PRC and Hong Kong

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate existence

Under Hong Kong law, a company having share capital, is incorporated and will acquire an independent corporate existence after being issued a certificate of incorporation by the company registrar of Hong Kong. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such preemptive provisions.

Under the PRC Company Law, a company may be incorporated by promotion or public subscription. Unless otherwise required by laws and regulations, there is no minimum requirement on the registered capital for a company. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share capital

Under Hong Kong law, the shares of a Hong Kong company have no nominal value and the directors may, with the prior approval of the shareholders if required, cause the company to issue new shares up to the maximum number (if any) set out in its articles of association. The PRC Company Law does not contain any regulation regarding authorized share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong. Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on shareholding and transfer of shares

Under PRC laws, the domestic shares (“domestic shares”) in the share capital of a joint stock limited company which are denominated and available for subscription in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas-listed foreign-invested shares (“foreign shares”) issued by a joint stock limited company which are denominated in Renminbi and available for subscription in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors, except as allowed under Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法).

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company’s public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total number of shares of the company held by them, and the shares they held in the company cannot be transferred within

one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel have left office. The articles of association may impose other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law except for the lock-up on the Company's issue of shares and the Controlling Shareholders' disposal of shares as described in the section headed "Underwriting" in this prospectus.

Financial assistance for acquisition of shares

Although the PRC Company Law does not contain any provision to prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on the granting of financial assistance by a company and its subsidiaries which are similar to those under Hong Kong company law.

Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances under which the class rights are deemed to be varied and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except: (i) with the approval by passing a special resolution by the holders of the relevant class at a separate meeting; (ii) with the consent in writing of the holders of at least three-fourths of the total voting rights of the issued shares of the class in question; (iii) by agreement of all the members of a Hong Kong company; or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every twelve (12)-month period, pursuant to a Shareholders' special resolution, of not more than 20% of each of the existing issued domestic shares and issued overseas listed foreign invested shares as of the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and overseas listed foreign

invested shares upon its establishment is implemented within fifteen (15) months following the date of approval by the CSRC; and (iii) upon approval by CSRC, the shareholders of Domestic Shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirement under which directors need to declare their interests in material contracts. There is no restriction on directors' authority in making major dispositions and on companies providing certain benefits and there is no prohibition against compensation for loss of office without shareholders' approval. The PRC Company Law provides restrictions on how interested directors should vote on resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of these provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

Board of Supervisors

Under the PRC Company Law, the board of directors and management of a joint stock limited company is subject to the supervision and inspection of a board of supervisors but there is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in matters he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

Derivative action by minority shareholders

Under Hong Kong law, if any director has committed a breach of their fiduciary duties to a company but, due to his/her controlling of a majority of votes at a general meeting, the company could not any take legal action against the director in its own name, the minority shareholders are then allowed to initiate a derivative action on behalf of the company against such director. The PRC Company Law gives shareholders of a joint stock limited company with the right so that if the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than one hundred and eighty (180) consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within

thirty (30) days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to, acting as agent of the shareholders, give an undertaking in favor of the company to allow minority shareholders to take action against the directors and supervisors in default.

Protection of minorities

Under Hong Kong law, a shareholder who complains that a company incorporated in Hong Kong is acting a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the acts of the company. In addition, in respect of any application given by a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters serious operational or management difficulties, its continuous existence will lead to significant losses to the shareholder and the situation cannot be resolved by any other mean, the shareholders holding 10% or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of all or some of the shareholders of a company.

Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than twenty (20) days before the meeting, or, in the case of a company having bearer shares, a notice of a shareholders' general meeting must be made at least thirty (30) days prior to the date of the meeting. Under the Special Regulations and the Mandatory Provisions, forty-five (45) days' prior written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing twenty (20) days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods to convene a general meeting for passing any ordinary resolution and any special resolution are fourteen (14) days and twenty-one (21) days, respectively. The notice period for an annual general meeting is twenty-one (21) days.

Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members present in person or by proxy unless the articles of association of the company otherwise provide. For companies with single member, the quorum should be one member.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company could convene a general meeting upon receipt of replies to the notice of that meeting from shareholders who intend to attend the meeting and whose shares represent 50% of the voting rights in the company at least twenty (20) days before the date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

Financial disclosure

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes twenty (20) days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than twenty-one (21) days before such meeting. The financial statements of a Hong Kong company must be prepared in accordance with the standards issued or specified by the Hong Kong Institute of Certified Public Accountants. A company is required under the PRC laws to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with

International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement describing the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The PRC Company Law gives the shareholders of a company the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Receiving agent

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six (6) years, while that under the PRC laws is two (2) years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

Corporate reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 668 to 674 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

Mandatory deductions

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declares any dividends after taxation. The company may not require to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has set aside statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, allocate an amount from the after-tax profits to a discretionary reserve fund. There are no such requirements under Hong Kong law.

Remedies of a company

Under the PRC Company Law, if a director, supervisor or management infringes any law, administrative regulation or the articles of association of a company when carrying out his/her duties, which results in damage to the company, that director, supervisor or management should be responsible to the company for such damages. In addition, remedies of the company are similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or management) and are in compliance with the Listing Rules.

Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six (6) years, whereas under PRC laws, the relevant limitation period is two (2) years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

Fiduciary duties

In Hong Kong, the common law contains concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for more than thirty (30) days (extendable to sixty (60) days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law, that share transfers may not be registered within thirty (30) days before the date of a shareholders' meeting or within five (5) days before the record date set for the purpose of distribution of dividends.

The Listing Rules

The Listing Rules provide additional requirements which are applicable to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or has already have its primary listing on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which are applicable to the Company:

Compliance adviser

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange considers that the compliance adviser has not fully fulfilled its responsibilities, it may require the company to terminate the compliance adviser's appointment and appoint a replacement. The compliance adviser must keep the company informed on a timely basis of any change in the Listing Rules and any new or amended law, regulation or code in Hong Kong which are applicable to the company.

It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently traveling out of Hong Kong.

Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited in accordance to the required standards in Hong Kong or International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to HKFRS or IFRS or PRC GAAP.

Process agent

The company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and the particulars of his contact.

Public shareholdings

If at any time a PRC issuer has existing issued securities, other than foreign-invested shares ("foreign shares") which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the shareholders in general will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings convened in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases

of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC laws of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company into the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

Redeemable shares

The Company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

Preemptive rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings convened in accordance with the Company's articles of association, before: (i) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (ii) any major subsidiary of the Company making any such authorization, allotment, issue or grant to materially dilute the percentage of equity interest held by the company and its Shareholders in such subsidiary. No such approval will be required, but only to the extent that, the existing Shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every twelve (12) months, not more than 20% of the existing Domestic Shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within fifteen (15) months from the date of approval by the CSRC; or where upon

approval by securities supervision or administration authorities of the State Council, the Shareholders of domestic shares of the Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

The Company is required to obtain the approval of its Shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (i) the term of the contract may exceed three years; or (ii) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration of more than one year.

The remuneration and assessment committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and our Shareholders as a whole and advise our Shareholders on how to vote.

Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the Mandatory Provisions of the Listing Rules and the Mandatory Provisions or the PRC Company Law.

Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete copy of the register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;

- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares); and
- a copy of the latest annual return submitted to the SAIC; and for shareholders only, copies of minutes of meetings of shareholders.

Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares for holding in trust until the holders of such H shares collect such monies.

Statements in H share certificates

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and

- authorizes the Company to enter into a contract on his behalf with each Director, Supervisors, manager and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and its Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and our Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or offer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

English translation

All notices or other documents required under the Listing Rules to be sent by the Company to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

General

If any change in the PRC laws or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements may be imposed, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC laws or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirements and lay down special conditions in respect of the Company's listing.

Other Legal and Regulatory Provisions

Upon the Company's listing, the provisions of the SFO, the Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Company.

Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

This appendix contains a summary of the principal provisions of the Articles of Association, which was adopted by our Shareholders in the general meeting held on 1 February 2019. The principal objective of this appendix is to provide an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important.

DIRECTORS AND OTHER SENIOR EXECUTIVE OFFICERS

Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Board of Directors to allot or issue shares.

In order to allot or issue shares, the Board of Directors is responsible for formulating a proposal for approval by Shareholders in a general meeting by way of a special resolution. Any such allotment or issue shall be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Power to Dispose of the Company's or Any of Its Subsidiaries' Assets

Before the Board of Directors is to dispose of any of the Company's fixed assets, the Board of Directors shall not, without the approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the expected value of the fixed assets contemplated to be disposed of and the realized value of fixed assets that have been disposed of within four (4) months immediately preceding the proposed disposition exceeds 33% of the value of the Company's fixed assets as shown in the latest audited balance sheet placed before Shareholders in a general meeting.

"Disposal of fixed assets" referred to in the Articles of Association shall include the transfer of certain interests in assets, but excludes any provision of any security with any fixed assets.

The validity of a transaction for the disposition of fixed assets by the Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

Compensation or Payments for Loss of Office

The Company shall, with the approval of Shareholders at a general meeting, enter into a contract in writing with each Director, Supervisor wherein his emoluments are stipulated. The aforesaid emoluments shall include:

- (1) remuneration with respect to his service as a Director, Supervisor or members of senior management of the Company;

- (2) remuneration with respect to his service as a Director, Supervisor or members of senior management of any subsidiary(ies) of the Company;
- (3) remuneration with respect to the provision of other services in connection with the management of the Company and any of its subsidiaries;
- (4) any payment as compensation for, or in connection with loss of office or retirement from office of such Director or Supervisor.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for any benefit due to him/her in respect of the above matters. Contracts entered into by the Company with a Director or Supervisor of the Company in connection with emoluments, shall provide that such Director or Supervisor, in the event of a takeover of the Company and subject to the approval of Shareholders in a general meeting, has the right to receive compensation or other payments for loss of his/her office or retirement from office. A takeover of the Company refers to either of the following circumstances:

- an offer is made to all Shareholders of the Company by anyone;
- an offer is made such that the offeror will become the Controlling Shareholder of the Company (as defined in the Articles of Association).

In the event that the relevant Director or Supervisor does not comply with this Article, any sum so received by him/her shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing such sum pro rata among such persons shall be borne by the relevant Director or Supervisor and shall not be deducted from such sum.

Loans to Directors, Supervisors and Other Officers

The Company shall not directly or indirectly provide a loan or a loan guarantee for a Director, Supervisor, manager and other senior management of the Company or of the Company's holding company or any of their respective connected persons.

The following transactions are not subject to the above mentioned prohibition:

- (1) the provision of a loan by the Company to, or a loan guarantee for its subsidiaries;
- (2) the provision of a loan by the Company to, or a loan guarantee or making any other funds available to any of its Directors, Supervisors, and other members of senior management to pay any expenses incurred by them for the purpose of the Company or for the purpose of his/her performance of his/her duties of the Company in accordance with a service contract approved by the Shareholders at the general meeting;

- (3) in the event that the ordinary course of the business of the Company includes the provision of the loan or the provision of guarantee, the Company may provide a loan to, or provide a loan guarantee for the relevant Directors, Supervisors, manager and other members of senior management or their respective connected parties, provided that such loans or guarantees are on normal commercial terms.

Any person who receives any funds from a loan which has been made by the Company in violation of the preceding Article shall, immediately repay such funds regardless of the terms of the loan.

A loan guarantee provided by the Company in breach of the prohibition referred to above shall be unenforceable against the Company unless:

- (1) the loan was provided to a connected person of any of a Directors, Supervisors, manager and other members of senior management of the Company or of the Company's holding company and the provider of the loan of such funds is not aware of the circumstances at the time of making the loan;
- (2) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of the mentioned above, the term "guarantee" shall include an act whereby a guarantor assumes its liability or provides property to secure the performance of obligations by an obligor.

In addition to the rights and remedies as provided in laws and administrative, when a Director, Supervisor, manager or other members of senior management of the Company breaches his/her obligations to the Company, the Company shall be entitled to:

- (1) demand such Director, Supervisor, manager or other members of senior management to compensate for any losses suffered by the Company as a consequence of such breach of obligations;
- (2) revoke any contract or transaction entered into between the Company and such Director, Supervisor, manager or other members of senior management or between the Company and a third party, where such party was aware of or should have been aware of that such Director, Supervisor, manager or other members of senior management representing the Company was in breach of his/her obligations to the Company;
- (3) demand such Director, Supervisor, manager or other members of senior management to surrender the gains derived from the breach of his/her obligations;

- (4) recover any amount which otherwise should have been received by the Company but were received by such Director, Supervisor, manager or other members of senior management instead, including (but not limited to) any commission;
- (5) demand relevant Director, Supervisor, manager or other members of senior management return the interest earned or possibly earned on any sum which should have been received by the Company.

Provision of Financial Assistance for the Purchase of the Shares of the Company or Any of Subsidiaries

Neither the Company nor any of its subsidiaries shall by any means at any time provide financial assistance to anyone who acquires or proposes to acquire Shares of the Company. The said person includes any person who has directly or indirectly assumed any liability incurred as a result of the acquisition of Shares of the Company.

Neither the Company nor any of its subsidiaries shall by any means at any time provide financial assistance to anyone mentioned in the foregoing paragraph for the purposes of reducing or discharging the liabilities assumed by that person.

The following transactions are not subject to the restriction:

- (1) the provision of the financial assistance by the Company in good faith and in the interests of the Company, and the principal purpose thereof is not to acquire Shares of the Company, or that financial assistance is an incidental part of the overall plan of the Company;
- (2) a lawfully distribution of the Company's assets by way of dividend;
- (3) the distribution of a dividend by way of Shares allotment;
- (4) a reduction in the Company's registered capital, a repurchase of Shares or reorganization of the share capital structure in accordance with the Articles of Association;
- (5) the provision of a loan by the Company which is conducted during the ordinary course of its business, provided that the net assets are not thereby reduced, or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company; and
- (6) the provision of moneys by the Company for contribution to employees' share schemes, provided that the Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company.

The above-mentioned term “financial assistance” shall include but not limited to the means below:

- (1) gifts;
- (2) guarantees (including the guarantor to assume the liability or offer assets to secure the obligor’s performance of obligations), compensation (not including compensation arising out of the Company’s own defaults), or release or waiver of any rights;
- (3) provisions of loans or any other agreements where the Company shall fulfill the obligations prior to other parties, or changes in the said loans or parties to agreements, or the assignment of the rights under such loans or agreements;
- (4) any other form of financial assistance provided by the Company while the Company is unable to pay its debts or no net assets is available or it’s the net assets may be thereby reduced to a material extent.

The term “assumed the liability” includes obligations assumed by obligor as a result of entering into a contract or making arrangements (whether enforceable or unenforceable or not, and whether made on his/her own account or with any other party) or by any other means that result in a change in his/her financial position.

Disclosure of Interests in Contracts with the Company or Any of Its Subsidiaries

Where a Director, Supervisor, manager or other senior management officer has in any way, directly or indirectly, material interest in an existing contract, transaction or arrangement or planned contract, transaction or arrangement with the Company (other than their contracts of employment with the Company), he/she shall disclose the nature and extent of such interests to the Board of Directors at the earliest opportunity, whether or not the relevant matter is subject to the approval of the Board of Directors.

The Director is not counted in the quorum and shall refrain from voting on the planned contract, transaction or arrangement in which he/she has materially interest.

Unless the interested Director, Supervisor, manager or other senior management officer has disclosed his/her interests in accordance with the requirement set out in the aforesaid paragraph of this clause of the Articles of Association and the contract, transaction or arrangement has been approved by the Board of Directors at a meeting in which the interested Director, Supervisor, manager or other senior management officer is not counted in the quorum and has refrained from voting, the Company has the right to revoke such contract, transaction or arrangement except for a bona fide party thereto acting without being aware of the breach of such obligations by the Director, Supervisor, manager or other senior management officer.

Where his/her connected person have interest in a contract, transaction or arrangement, a Director, Supervisor or manager or other senior management officer is also deemed to be interested in a contract, transaction or arrangement in which his/her connected person have interests as an interested person.

Where a Director, Supervisor, manager or other senior management officer of the Company gives the Board of Directors a notice in writing stating that, by reason of the facts stated in the notice, he/she has interest in contracts, transactions or arrangements which may subsequently be entered into by the Company, such notice shall be deemed to be a disclosure of his/her interests pursuant to the relevant requirements in the Articles of Association, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the entering into relevant contract, transaction or arrangement in first taken into consideration by the Company.

Remuneration

The remuneration of Directors shall be approved by the Shareholders in the general meeting. See “– Directors and Other Senior Executive Officers – Compensation or Payments for Loss of Office” above.

Retirement, Appointment and Removal

A person may not serve as a Director, Supervisor, manager or other senior management officer of the Company if he/she is a person:

- (1) without capacity or with restricted capacity;
- (2) has been convicted of corruption, bribery, infringement of property or misappropriation of property or other offenses which disrupted the social or economic order, or has been deprived of his/her political rights, in each case where no more than three (3) years has elapsed since the date of the completion for the sentence served;
- (3) acting as a former Director, factory manager or manager of a company or an enterprise which has been dissolved or liquidated due to poor operation and management and is personally liable for the dissolution or liquidation of such company or enterprise, in each case where no more than three (3) years has elapsed since the date of completion of the dissolution or liquidation of such Company or enterprise;
- (4) acting as a former legal representative of a company or an enterprise, the business license of which was revoked due to a violation of laws and is personally liable for such revocation, where no more than three (3) years has elapsed since the date of revocation of the said business license;
- (5) has a relatively substantial amount of debts due and outstanding;
- (6) is under investigation and prosecution by judicial authorities for violation of criminal law and such investigation and prosecution are not yet concluded;

- (7) is not permitted to act in the capacity of leadership of an enterprise according to laws and administrative regulations;
- (8) is a non-natural person;
- (9) has been convicted of violation of applicable securities regulations by relevant competent authorities and such conviction involves a finding that he/she has acted fraudulently or dishonestly, where no more than five (5) years has elapsed from the date of conviction;
- (10) fall within the circumstance prescribed by the laws and regulations of the place where the stocks of the company are list.

The validity of the acts of Directors, managers or senior management officers who have acted on behalf of the Company with respect to bona fide third parties shall not be affected due to any irregularities in the appointment, election or qualification of such Directors, managers or senior management officers. The Board of Directors shall consist of nine Directors, of which three are independent non-executive Directors. At least one of the independent non-executive Directors shall have appropriate professional qualifications or expertise in accounting or related financial management. Moreover, at least one of the independent non-executive Directors shall ordinarily reside in Hong Kong.

The Board of Directors also consists of one chairman and one vice-chairman, who shall be elected or removed by more than one half of all of the Directors. Directors may be elected or removed by ordinary resolution at a general meeting.

The Articles do not contain any provision in relation to the retirement age of Directors.

The term of office of the chairman, vice chairman and other Directors shall be three (3) years and is renewable upon reelection.

Without prejudice to any claim for damages under any contract, a Director during his/her term of office may be removed by ordinary resolution at the general meeting in accordance with the laws and administrative regulations. The written notice of the intention to nominate a person for election as a Director and of his/her willingness to be elected shall be given to the Company at least seven (7) days prior to the meeting. The period for giving such written notice shall commence after the date the Company giving notice of the general meeting by post, and shall end not later than seven (7) days before the date of convening the general meeting.

Borrowing Powers

Subject to the compliance with the laws and administrative regulations of the PRC, the Company is entitled to raise capital and borrow money, including but not limited to the issue of bonds, to mortgage or pledge part or whole of the Company's properties and other rights permitted under the laws and administrative regulations of the PRC without prejudice or

abrogate to any rights of any Shareholder. The Articles of Association do not contain any special provisions in respect of the manner in which borrowing powers may be exercised by the Directors nor contain any special provisions in respect of the manner in which such power may be raised, other than: (a) provisions giving the Directors the power to formulate proposals for the issuance of debentures by the Company; and (b) provisions providing that the issuance of debentures must be approved by the Shareholders of the Company in a general meeting by special resolutions.

Duties

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which the Shares are listed, each of the Director, Supervisor, manager and other executive officer of the Company owes a duty to each Shareholder, in exercise of the functions and powers of the Company entrusted to him/her:

- (1) to exercise him/her power within the business scope specified by the business license;
- (2) to act in good faith in what him/her consider to be in the best interest of the Company;
- (3) not to deprive in any way the Company of its assets, including but not limited to, the opportunities beneficial to the Company; and
- (4) not to deprive Shareholders of their personal rights and interests, including but not limited to, the rights of distribution and voting, except for the submission during the corporate reorganization in accordance with the provisions of the Articles of Association and adopted at a general meeting.

Each of Directors, Supervisors, manager and other senior executive officers owes a duty, in the exercise of his/her powers and performance of his/her duties, to exercise the care, diligence and skill in a prudent way under different circumstances.

Each Director, Supervisor, manager, and other senior management officer of the Company should abide by his/her fiduciary principles in the performance of his/her duties, and not to place himself/herself in a position where his/her duty and his/her own interests may conflict with. Such principles include, but are not limited to, the performance of the following obligations:

- (1) to act in good faith in what he/her considers to be in the best interest of the Company;
- (2) to exercise his/her power within the scope specified and not to act ultra vires;

- (3) to exercise his/her own discretion without being subject to the directions of others, nor to transfer such power of discretion to others unless otherwise permitted by laws or administrative regulations or approved by the general meeting after being informed;
- (4) to treat Shareholders of the same class equally, and to treat Shareholders of different classes fairly;
- (5) not to execute any contracts or transactions or make arrangements with the Company unless otherwise provided by the Articles of Association or approved by the general meeting after being informed;
- (6) not to pursue his/her own benefit in any way using the Company's assets unless approved by the general meeting after being informed;
- (7) not to accept any bribery or other illegal incomes, and not to seize the Company's assets, including but not limited to, the beneficial opportunities to the Company in any manner by taking advantage of his/her powers and position;
- (8) not to accept any commission with respect to the Company transactions without the approval granted by the general meeting after being informed;
- (9) to comply with the Articles of Association, to perform his/her duties in good faith, to safeguard the Company's interests, and not to pursue personal gains by taking advantage of his/her powers and position;
- (10) not to compete with the Company in any manner unless approved by the general meeting after being informed;
- (11) not to misappropriate the funds of the Company or lend loans to others out of the funds of the Company, not to deposit the assets of the Company into accounts under his/her or any other's name, and not to use assets of the Company as security for debts to Shareholders of the Company or other individuals;
- (12) not to divulge any confidential information of the Company that has been obtained during his/her term of office, unless approved by the general meeting after being informed; and not to utilize such information other than the purpose of benefiting the interests of the Company; notwithstanding the foregoing provisions, he/she is allowed to disclose such information to a court or other competent government authorities under the following circumstances:
 - (i) as prescribed by laws;
 - (ii) for the purpose of public interests;

- (iii) for the interests of the Directors, Supervisors, manager or other members of senior management.

A Director, Supervisor, manager or senior management officer of the Company shall not direct following person or institution to do what he/she is not permitted to do:

- (1) the spouse or minor child of such a Director, Supervisor, manager or senior management officer;
- (2) a trustee for such a Director, Supervisor, manager or senior management officer or any person referred to in (1) above;
- (3) a partner of such a Director, Supervisor, manager or senior management officer or of any person referred to in (1) and (2);
- (4) a company in which that a Director, Supervisor, manager or other senior management officer, alone or jointly with one or more persons referred to in above (1), (2) and (3) or with any of other Directors, Supervisors, manager or other senior management officers of the Company, have de facto control; or
- (5) a director, supervisor, manager or senior management officer of a company referred to in (4) above.

The fiduciary duties of a Director, Supervisor, manager and senior management officer of the Company do not necessarily cease with the termination of his/her tenure. The duty of confidentiality in relation to commercial confidential information of the Company survives the termination of his/her term of office. Other duties may continue for such period as fairness may require depending on the time elapse between the termination of his/her term of office and the occurrence of the matter in question and the circumstances and the terms under which the relationships between him/her and the Company are terminated.

Subject to the Articles of Association, the obligation of a Director, Supervisor, manager, or other senior management officer may be relieved for particular breaches of his/her duty by the informed consent of Shareholders in a general meeting. In addition, a Director is not necessarily required to hold Shares of the Company.

ALTERATIONS TO CONSTITUTIONAL DOCUMENTS

The amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the approval authorities of the State Council and the CSRC. If there are any changes relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

VARIATIONS OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Shareholders holding different class of shares are class shareholders.

Class shareholders shall enjoy the rights and assume the obligations stipulated by laws, administrative regulations and the Articles of Association. The Company may not vary or abrogate rights attached to any class of shares unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the rights of a class shareholder:

- (1) an increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of another class having voting rights or distribution rights or other privileges equal to or superior to those of the shares of such class;
- (2) the conversion of all or part of the shares of such class into the shares of another class or the conversion or creation of a right of conversion of all or part of the shares of another class into the shares of such class;
- (3) the removal or reduction of rights to receive accrued dividends or rights to cumulative dividends attached to the shares of such class;
- (4) the reduction or removal of the preferential rights attached to the shares of such class for the receipt of dividends or for the distribution of assets in the event that the Company is liquidated;
- (5) the addition, removal or reduction of the rights of conversion, options rights, voting rights, transfer rights, preemptive rights, or rights to acquire securities of the Company attached to the shares of such class;
- (6) the removal or reduction of the rights to receive payment receivable from the Company in the particular currencies attached to the shares of such class;
- (7) the creation of a new class of shares having voting rights or distribution rights or other privileges equal to or superior to those of the shares of such class;
- (8) the restriction of the transfer of ownership of the shares of such class or the imposition of more strict restrictions thereof;
- (9) the issue of any rights to subscribe for, or to convert into, shares in the Company of the same class or another class;
- (10) the enhancement of rights or privileges of the shares of other classes;

- (11) the restructuring of the Company pursuant to which shareholders of different classes assume disproportionate liability;
- (12) to vary or abrogate the provisions in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a meeting of a class of shareholders shall require the approval of shareholders present representing more than two thirds of the voting rights of the class shareholders presenting the meeting in accordance with the Articles of Association.

Written notice of a class meeting shall be given by the Company forty-five (45) days prior to the date of the meeting to notify all the registered shareholders holding shares of that class of the matters to be considered at the meeting and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver a written reply confirming his/her attendance at the class meeting to the Company twenty (20) days prior to the date of the meeting.

The Company can convene a class shareholders' meeting, if the number of shares of the class carrying voting rights represented by shareholders intending to attend represents more than one half of the total number of such shares of the Company. If not, the Company shall make an announcement, within five (5) days, once again notifying the shareholders of the matters proposed to be considered and the date and place of the meeting. Once an announcement has been so made, the Company may convene the class shareholders' meeting. Notice of class meetings need only be served on shareholders entitled to vote at the meetings. Meetings of any class of shareholders shall be conducted in a similar way as closely as possible to the provisions for general meetings of shareholders set out in the Articles of Association.

In addition to holders of other class shares, holders of Domestic Shares and overseas-listed-foreign-invested Shares are deemed to be shareholders of different classes.

Special procedures for voting by holders of different classes of shares do not apply to the following situations:

- (1) upon the approval by special resolution of its shareholders in general meeting, where the Company either separately or concurrently issues Domestic Shares and overseas-listed foreign shares every twelve (12) months, and the number of Shares of each class to be issued shall not account for not more than 20% of each of its existing issued Domestic Shares or overseas-listed-foreign-invested Shares; or

- (2) where the Company's plan made at the time of its establishment to issue Domestic Shares and overseas-listed-foreign-invested shares is completed within fifteen (15) months from the date on which approval is given by the CSRC or other securities regulatory authorities under the State Council;
- (3) Upon the approval of the securities regulatory authority under the State Council, the domestic-funded shareholders of the Company transfer the shares they hold to overseas investors and list them on the overseas stock exchanges.

For the purposes of the class rights provisions of the Articles of Association, an "Interested Shareholder" is:

- (1) in the case of a repurchase of shares by offers to all Shareholders or public dealing on a stock exchange, a Controlling Shareholder within the meaning of the Articles of Association;
- (2) in the case of a repurchase of shares by an off-market contract, a holder of the shares to which the proposed contract relates;
- (3) in the case of a restructure of the Company, a shareholder within a class who bears less than a proportionate amount of obligations imposed on the shareholders of that class or who has an interest different from the interest of the other shareholders of that class.

SPECIAL RESOLUTIONS – MAJORITY REQUIRED

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, more than one half of the votes represented by Shareholder (including proxies) present at the general meeting must be exercised in favor of the resolution.

To adopt a special resolution, more than two thirds of the votes represented by the Shareholders (including proxies) present at the general meeting must be exercised in favor of the resolution.

VOTING RIGHTS OF THE PROXIES OF THE SHAREHOLDER (GENERAL RIGHT ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary Shareholders of the Company have the right to attend or appoint a proxy to attend general meeting and to vote at the meeting on his/her behalf. Shareholders (including proxies) when voting at a general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each Share shall have one vote.

On a poll taken at a meeting, a Shareholder (including a proxy) entitled to two or more votes needs not cast all his/her votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have the right to cast an additional vote.

REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

A general meeting shall either be an annual general meeting or an extraordinary general meeting. Annual general meetings are held once a year within six (6) months after the end of preceding financial year.

ACCOUNTS AND AUDIT

Financial and Accounting System

The Company shall establish its financial and accounting systems and internal audit system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory authority of the State Council. The Board of Directors of the Company shall place before the Shareholders at every annual general meeting such financial reports as are required by the laws, administrative regulations or directives promulgated by competent local governments and supervisory authorities to be prepared by the Company.

The Company's financial reports shall, at least twenty-one (21) days before the date of convening the annual general meeting and within four (4) months of the end of the financial year, be delivered by prepaid mail to the registered address of every holder of overseas-listed shares.

The financial statements of the Company shall, in addition to complying with PRC accounting standards, rules and regulations, be prepared in accordance with either international accounting standards or that of the overseas place where the Shares are listed. Where there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profits of the relevant financial year, the lower of the after-tax profits as shown in the two financial statements prepared in accordance with: (i) PRC accounting standards, rules and regulations; or (ii) international accounting standards or that of the overseas place where the Shares are listed shall be adopted. Any interim results or financial information published or disclosed by the Company shall also be prepared and presented in accordance with PRC accounting standards and regulations as well as either IFRS or that of the overseas place where the shares are listed.

The Company shall publish its interim results announcement within sixty (60) days after the expiration of the first six (6) months of each financial year and the annual results announcement within one hundred and twenty (120) days after the expiration of each financial year.

The Company shall not keep any other books of accounts other than those provided by law. The assets of the Company must not be registered in any person's personal accounts.

Appointment and Removal of Accountants

The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the PRC to audit the Company's annual reports and review the Company's other financial reports. The first accountants firm of the Company may be appointed by the inaugural meeting prior to the first annual general meeting and the accountants firm so appointed shall hold office until the conclusion of the first annual general meeting. Where the inaugural meeting fails to perform this duty, it shall be performed by the Board of Directors instead.

The accountants firm appointed by the Company shall hold office from the conclusion of the annual general meeting until the conclusion of the next annual general meeting. The Shareholders in general meeting may by ordinary resolution remove an accountants firm before the expiry of its term of office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accountants firm or the manner in which such remuneration is determined shall be decided by the Shareholders in general meeting. The remuneration of an accountants firm appointed by the Board of Directors shall be determined by the Board of Directors.

The Company's appointment of, removal of and non-renewal of the appointment of an accountants firm shall be resolved upon by the Shareholders in general meeting and such resolution shall be reported to the CSRC for record.

Where a resolution at a general meeting is passed to appoint an accountants firm to fill a vacancy in the office of an accountants firm, or to reappoint an accountants firm appointed by the Board of Directors to fill in any vacancy, or to remove an accountants firm before the expiration of its term of office, the following provisions shall apply:

- (1) copy of the proposal shall be sent to the accountants firm proposed to be appointed or proposing to leave its post or the accountants firm who has left its post, before notice of the general meeting is given to the Shareholders. Leaving includes leaving by removal, resignation and retirement.
- (2) If the accountants firm is leaving its post makes representation in writing and the Company notify the same to the Shareholders, unless the representation is received too late, the Company shall:
 - (i) in the notice of the general meeting given to Shareholders, state the fact of the representation having been made by the leaving accountants firm; and

- (ii) send a copy of the representation as an attachment to the notice to every Shareholder entitled to receive the notice of general meeting by means stipulated in the Articles of Association.
- (3) If the accountants firm's representation is not sent in accordance with (2)(ii) above, the accountants firm may require that the representation be read out in the meeting and make further appeal.
- (4) The accountants firm that has left office may attend the following meetings:
 - (i) the general meeting at which its term of office would otherwise have expired;
 - (ii) any general meeting for filling the vacancy caused by its removal; or
 - (iii) any general meeting convened on its resignation.

The accountants firm that has left office is entitled to receive all notice of the said meetings or other information with respect thereto, and speak at the said meetings with respect to matters concerning its being the former accountants firm of the Company.

Prior to the removal or the non-renewal of the appointment of the accountants firm, notice of such removal or non-renewal shall be given to the accountants firm and such firm shall have the right to attend and to make representation to the general meeting. Where the accountants firm resigns, it shall make clear to the general meeting whether there is any impropriety on the part of the Company.

- (1) The accountants firm may resign its office by delivering to the Company's legal address a resignation notice which shall become effective on the date of such delivery or on the date stipulated in such notice, whichever is later. Such notice shall include the following: (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of the Company; or (ii) a statement of any such circumstances.
- (2) Where a notice is deposited under the item (ii) of the preceding paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding paragraph, a copy of such statement shall be placed at the Company for Shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of overseas-listed-foreign-shares at the address registered in the register of Shareholders.

- (3) Where the accountants firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the Shareholders or creditors of the Company, it may require the Board of Directors to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. Without the prior approval of Shareholders in general meeting, the Company shall not enter into any contract with any person other than a Director, Supervisor, manager or other senior management officer whereby such person is entrusted with the management of the whole or a material part of any business of the Company.

The general meeting shall either be an annual general meeting and an extraordinary general meeting. Annual general meetings shall be called by the Board of Directors and held once every year, and within six (6) months of the end of the preceding financial year. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two (2) months of the occurrence of any of the following events:

- (1) when the number of Directors is less than that required by the PRC Company Law or is less than two thirds of the numbers required by the Articles of Association;
- (2) when the Company fails to recover the loss amounting to over one third of the share capital;
- (3) when Shareholder(s) individually or collectively holding 10% or more of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (4) when deemed necessary by the Board of Directors or the Board of Supervisors motions to call an extraordinary general meeting;
- (5) when two or more independent directors proposed to convene;
- (6) other events stipulated by the laws, administrative regulations, departmental rules, the listing rules of the exchange where the Shares of the Company are listed or other conditions prescribed in the Articles of the Association.

To convene a general meeting, the Company shall give written notices forty-five (45) days on or before the date of the meeting, informing all registered Shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who intend to attend the meeting shall return the written replies of attendance be received by the Company twenty (20) days before the date of the meeting. When the Company is to convene an annual general meeting, Shareholders individually or collectively holding 3% or

more of the total voting shares of the Company are entitled to propose new resolutions in writing to the Company. The Company shall place such resolutions on the agenda for such meeting if they are matters falling within the scope of duties of the general meeting.

The Company shall, based on the written replies received from Shareholders twenty (20) days prior to the date of the general meeting, calculate the number of voting shares represented by the Shareholders who intend to attend the meeting. In the event that the number of voting shares represented by the Shareholders who intend to attend the meeting represents one half or more of the Company's total voting shares, the Company may convene the meeting. If otherwise, then the Company shall, within five (5) days, notify the Shareholders again by announcement of the matters to be considered, and the place and the date for the meeting. The Company may convene the meeting following the publication of such notice.

No matters unspecified in the notice of extraordinary general meeting shall be considered at such meeting.

The notice of the general meeting shall:

- (1) be in writing;
- (2) specify time, date and place of the meeting;
- (3) describe matters for consideration at the meeting;
- (4) provide such necessary information and explanations for Shareholders to make an informed judgment on the matters to be considered. Without limitation to the generality of the foregoing, where a proposal is made with respect to the merger of the Company with another company, the repurchase of Shares, the restructuring of share capital, or the restructuring of the Company in any other manner, the terms of the proposed transaction must be provided in detail along with copies of the proposed agreement, if any, and the reason(s) and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, manager, or other members of senior management in the proposed transaction and the effect of the transaction in their capacity as Shareholders to the extent that it is different from the effect on the interests of Shareholders of the same class;
- (6) contain the full text of any special resolution proposed to be passed at the meeting;
- (7) state clearly that a Shareholder is entitled to attend and vote at the meeting, and to appoint one or more proxies to attend and vote on his/her behalf, and that a proxy may not necessarily be a Shareholder of the Company;

- (8) specify the time and place for delivering proxy forms for the relevant meeting;
- (9) state the names and contact telephone numbers of the standing contact persons in connection with the meeting.

That a copy of the directors' report, accompanied by the balance sheet, including every document required by law to be annexed thereto, and profit and loss account or income and expenditure account, or the summary financial report shall, at least twenty-one (21) days before the date of the general meeting, be delivered or sent by post to the registered address of every Shareholder.

Notice of general meeting shall be served on Shareholders, whether or not entitled to vote at the meeting, by delivery or prepaid mail to their addresses as shown in the register of Shareholders. For the holders of Domestic Shares, notices of the general meeting may also be issued by way of announcements.

The announcement as referred to in the preceding paragraph shall be published in one or more national newspapers designated by the CSRC within forty-five (45) days to fifty (50) days prior to the date of the meeting. Upon publication of such announcements, the holders of Domestic Shares shall be deemed to have received the notice for the general meeting.

When requesting the convening of an extraordinary general meeting or a class meeting, it shall be handled according to the following procedures:

- (1) Shareholder(s), individually or collectively holding 10% or more of the shares carrying the right to vote at the meeting shall sign one or more written requests of the same form stating the subject of the meeting and requesting that the Board of Directors convene an extraordinary general meeting or a class meeting thereof. The Board of Directors shall convene an extraordinary or a class general meeting responsively after receipt of such request. The aforesaid amount of shareholding is calculated as on the day when the Shareholders make the request in writing.
- (2) If the Board of Directors fails to send notice of the meeting within thirty (30) days from the date of the receipt of such request, requesting Shareholders may call the meeting within four (4) months of the date of the receipt of such request by the Board of Directors, and the procedures for calling the meeting shall remain as same as possible when the Board of Directors would call the meeting.

The following matters shall be resolved by ordinary resolutions at the general meeting:

- (1) reports of the Board of Directors and the Board of Supervisors;
- (2) any plans for the distribution of profits and for recovering losses formulated by the Board of Directors;

- (3) removal of the members of the Board of Directors and Board of Supervisors on behalf of Shareholders, and decision on their remuneration and methods of payment;
- (4) preliminary and final annual budgets, balance sheets, profit accounts, and other financial statements of the Company;
- (5) other matters other than those required by laws, administrative regulations, or by the Articles of Association to be approved by a special resolution.

The following matters shall be resolved by special resolutions at the general meeting:

- (1) the increase or reduction in share capital and the issue of shares of any class, warrants and other similar securities;
- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution, liquidation or change in the form of the Company;
- (4) where the Company acquired or disposed major assets or provided guarantee amount(s) which exceeds 30% or more of its latest audited total assets;
- (5) the amendments to the articles of association;
- (6) other matters that ordinary resolutions have been made at the general meeting indicating that resolutions regarding such matters will substantially impact the Company and such matters need to be passed by a special resolution;
- (7) other matters required to be passed by a special resolution under the Main Board Listing Rules of Hong Kong Stock Exchange.

If any Shareholder shall waive his/her voting right on a particular matter, or is restricted to vote only for or against the matter, in accordance with the Listing Rules, such Shareholder should waive his/her voting right or abstain from voting in accordance with the provisions therein; any vote casted by or on behalf of any Shareholder in violation of such provisions or restriction shall not be counted into the poll result.

TRANSFER OF SHARES

Unless the laws and regulations otherwise specify, the Shares of the Company can be transferred freely without any encumbrance.

All the fully paid-up H Shares can be freely transferred in accordance with the Articles of Association. Subject to the requirements stipulated in the Articles of Association, the Board of Directors may refuse to accept any transfer documents without giving any explanation for such refusal. The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company may, pursuant to the Articles of Association and subject to the approval of the relevant governing authority of the PRC, repurchase its outstanding shares under the following circumstances:

- (1) to cancel the Shares for the purpose of reducing its capital;
- (2) to merge with other companies that hold Shares of the Company;
- (3) to award Shares to the employees of the Company;
- (4) to be requested to repurchase the Shares held by the Shareholders who object to resolutions adopted at the general meeting concerning consolidation or division of the Company;
- (5) other circumstances permitted by laws and administrative regulations.

The repurchase of the Company's Shares for reasons set out in Items (1) to (3) of the above Article shall be subject to resolution at a general meeting. After the Company has repurchased its Shares in accordance with Item (1) of the above Article, such Shares shall be canceled within ten (10) days upon repurchase, or shall be transferred or canceled within six (6) months in the circumstances set out in Items (2) and (4). Shares repurchased by the Company in accordance with Item (3) of the above Article shall not exceed 5% of the total Shares issued by the Company; the repurchase cost shall be covered by the after-tax profit of the Company; and the Shares repurchased shall be transferred to employees within one (1) year.

The Company may, upon the approval of the relevant governing authorities of the PRC, repurchase its Shares in one of the following ways:

- (1) by making a general offer to all of its Shareholders for the repurchase of Shares on a pro rata basis;
- (2) by open trading on a stock exchange;
- (3) by an off-market agreement outside of the stock exchange.

If the Company repurchases its Shares by concluding an off-market agreement outside of the stock exchange, it shall obtain prior approval at the general meeting pursuant to the Articles of Association. Upon approval in the same manner at the general meeting, the Company may discharge or amend the said agreement or waive any of its rights thereunder. The off-market agreement for the repurchase of Shares referred to in the preceding paragraph shall include, but not limited to, a document to become obliged to repurchase and acquire the right to repurchase shares of the Company. Unless the Company is undergoing the liquidation, it shall repurchase its outstanding Shares pursuant to the rules below:

- (1) where the Company repurchases Shares at par value, payment shall be made from the surplus of its distributable profits or from the proceeds of a new issue for that purpose;
- (2) where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made from the surplus of its distributable profits or from the proceeds of a new issue for that purpose. Payment of the portion in excess of par value shall be effected as follows:
 - (i) if the Shares being repurchased are issued at par value, payment shall be made from the surplus of its distributable profits;
 - (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made from the surplus of its distributable profits or from the proceeds of a new issue for that purpose, provided that the amount paid from the proceeds of such new issue shall not exceed the aggregate amount of the premiums received by the Company on issuance of the Shares so repurchased or the balance of the Company's capital reserve account (including the premiums on the new issue) at the time of such repurchase;
- (3) The Company shall make payments out from its distributable profits for the following expenses:
 - (i) for acquisitions of rights to repurchase its own Shares;
 - (ii) for the variation of any contract for the repurchase of its Shares;
 - (iii) for release from its obligations under any repurchase contract;
- (4) After the total par value of the Shares that are canceled is deducted from the Company's registered capital, the amount equal to the par value of its Shares deducted from its distributable profits shall be included in the Company's capital reserve account.

POWER OF ANY SUBSIDIARIES OF THE COMPANY TO OWN SHARES IN ITS PARENT COMPANY

The Articles of Association contains no restrictions preventing any subsidiaries of the Company from holding the Shares.

DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

The Company may distribute dividends by way of cash or Shares (or both). Any amount paid up in advance of calls on any Share may carry interest but shall not entitle the holder of the Share to participate in respect thereof in a dividend subsequently declared. Dividends in respect of ordinary Shares shall be denominated and paid in RMB. Dividends in respect of domestic shares shall be paid in RMB. Dividends in respect of overseas-listed-foreign-shares

and other distributions shall be paid in the currency of the place of listing, and where there is more than one of such places, in the currency of the place of primary listing as determined by the Board of Directors. Dividends in respect of non-listed foreign shares shall be paid in Hong Kong dollars. The Company shall appoint a receiving agent for the Shareholders of the overseas-listed-foreign Shares. Such receiving agent shall receive dividends of the overseas-listed-foreign Shares on behalf of such relevant Shareholders, as well as all other amounts payable to such Shareholders. The receiving agent appointed by the Company shall comply with the relevant requirements of the laws of the places or the relevant regulations of the stock exchange in which the Shares are listed. The receiving agent appointed for Shareholders of H Shares listed on The Stock Exchange of Hong Kong Limited shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

PROXIES

Any Shareholders entitled to attend and vote at the general meeting shall be entitled to appoint to entrust one or several persons (whether a Shareholder or otherwise) as his/her proxy/proxies to attend and vote on his/her behalf. A proxy so appointed shall have:

- (1) the right to speak at the meeting;
- (2) the right to demand or join in demand for a poll;
- (3) the right to vote a show of hands or by poll, but the proxies of a Shareholder who has appointed more than one proxy may only vote by poll.

The proxy form shall be in writing, either to be executed by the appointer or by power of attorney. Should the appointer be a legal entity, then such proxy form shall be executed with the company seal or by its Directors or the legal representative. And if more than one proxy is appointed, such instrument shall specify the number of Shares represented by each proxy.

The instrument appointing a proxy must be deposited at the registered address of the Company or other location designated in the notice convening the meeting no later than twenty-four (24) hours before the designated time at which the resolution is adopted. If such instrument is signed by a person under a power of attorney or other authorized letter on behalf of the appointer, a certified copy of that power of attorney or other authorized letter shall be notarized. The notarized power of attorney or other authorized letter shall be deposited at the registered address of the Company or other location designated in the notice convening the meeting together with the instrument appointing the proxy. If the appointer is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend the general meeting of the Company as a representative of the appointer.

Any form issued to a Shareholder by the Board of Directors for the appointment of a proxy by the Shareholder for attendance and voting at a meeting shall enable the Shareholder to instruct the proxy to vote for or against each resolution at the meeting. Such forms shall contain a statement which states that, in the absence of instructions by the Shareholder, the proxy may vote in the proxy's own discretion. A vote provided in according to the instruments

in such proxy forms shall be valid, notwithstanding the previous death or loss of capacity of the appointer or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares with respect to which the proxy is given, provided that no notice in writing of such matters shall have been received by the Company prior to the commencement of the meeting at which the proxy is used.

CALLS ON SHARES AND FORFEITURE OF SHARES

Shareholders are entitled to the interest of any payment for shares prior to the making of calls on such shares, but cannot claim any dividend in respect of such shares that is declared after that prepayment.

INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

The Company shall maintain a register of Shareholders. The Company may, in accordance with the understanding or agreements between the CSRC and the overseas securities regulatory entities, maintain the register of overseas-listed-foreign Shares and appoint overseas agent(s) to manage such share register. The original register of overseas-listed-foreign Shares listed in Hong Kong shall be maintained at Hong Kong. Duplicates of the share register for holders of overseas-listed-foreign Shares shall be maintained at the Company's domicile. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share registers of the overseas-listed-foreign-shares.

If there is any inconsistency between the original and the duplicate of share register of overseas-listed-foreign-shares, the original shall prevail.

Within thirty (30) days from the date of general meeting or five (5) days from the referenced date for the Company's distribution of dividends, no change shall be made in the name of Shareholders as a result of transfer of Shares.

When the Company decides to convene a general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the Board of Directors shall determine a record date for the purpose of determining the shareholding. A person who is registered in the register as Shareholder of the Company at the end of the record date shall be a Shareholder of the Company.

Any person who objects to the register of Shareholders and claims to be entitled to have his/her name (title) entered in or removed from the register of Shareholders may apply to a court of competent jurisdiction for an amendment of the register.

QUORUM FOR GENERAL MEETINGS

The Company may convene a general meeting if the number of Shares carrying voting rights represented by Shareholders intending to attend comprises more than half of the total number of Shares carrying voting rights. The Company may convene a class shareholders' meeting if the number of Shares of the class carrying voting rights represented by Shareholders intending to attend such meeting comprises more than half of the total number of such Shares of the class.

RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to the obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchange on which the Shares of the Company are listed, a Controlling Shareholder (as defined below) shall not exercise his/her voting rights with respect to the following matters in a manner that is prejudicial to the interests of all or some Shareholders:

- (1) to relieve a Director or Supervisor from obligation to act in good faith in the best interests of the Company;
- (2) to allow the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of other person(s)), in any manner, of the Company's assets, including, but not limited to any opportunities deemed to be beneficial to the Company;
- (3) to allow the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of other person(s)) of the individual rights of other Shareholders, including, but not limited to the rights to distributions and vote (except for pursuant to a company restructure proposed to Shareholders for approval at a general meeting in accordance with the Articles of Association).

PROCEDURE ON LIQUIDATION

The Company shall be dissolved and liquidated in accordance with law upon occurrence of any of the following events:

- (1) a resolution for dissolution is passed by the general meeting;
- (2) a merger or division of the Company for which a dissolution becomes necessary;
- (3) the Company is announced bankrupt according to the laws due to overdue debts;
- (4) the Company is lawfully declared to be close down for violation of laws and administrative regulations;
- (5) the operation term of the Company has expired;

- (6) if no other solution can be pursued when the Company experiences substantial difficulties in its operation and management and its continuance shall cause a significant loss in the interest of the Shareholders, a Shareholder or a group of Shareholders holding more than 10% of the total Shares of the Company may, present a petition to the People's Court for a dissolution of the Company.

In the event of dissolution pursuant to Items (1), (5) and (6) of the preceding Article, the Company shall establish a liquidation committee within fifteen (15) days, and the members of the liquidation committee shall be appointed by an ordinary resolution at the general meeting. If the liquidation committee is not duly established within the stipulated period, the creditors may present a petition to the People's Court to designate related persons to establish a liquidation committee to carry out liquidation.

If the Company is dissolved pursuant to Item (3) of the preceding Article, a liquidation committee comprising Shareholders, the relevant departments and professionals shall be arranged by the People's Court in accordance with relevant laws to carry out the liquidation. If the Company is dissolved pursuant to Item (4) of the preceding Article, a liquidation committee comprising Shareholders, the relevant departments and professionals shall be arranged by the relevant supervisory authority to carry out the liquidation.

Where the Board of Directors has decided to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the Board of Directors shall state in the notice convening the general meeting that it has made full inquiry into the affairs of the Company and is of the opinion that the Company shall be able to settle its debts in full within twelve (12) months from the commencement of the liquidation.

The Board of Directors shall stop exercising its powers and functions upon passing of the resolution for a liquidation of the Company by the Shareholders at the general meeting. The liquidation committee shall act in accordance with the instructions from the general meeting to report at least once every year to the general meeting on the committee's income and expenses, the business and the progress of the liquidation of the Company; and to present a final report to the general meeting upon completion of the liquidation. The liquidation committee shall, within ten (10) days of its establishment, notify the creditors, and, within sixty (60) days of its establishment, publish announcements on newspapers for at least three times. Creditors shall, within thirty (30) days of receipt of the notice, or for creditors who have not personally received such notice, shall within forty-five (45) days of the date of the announcement, contact the liquidation committee to claim their rights.

During liquidation, the liquidation committee shall exercise the following functions and powers:

- (1) to handle the Company's assets and to prepare a balance sheet and an inventory of assets respectively;
- (2) to notify or to publish announcements to the creditors;

- (3) to dispose of any outstanding businesses of the Company in relation to the liquidation;
- (4) to pay outstanding taxes;
- (5) to settle claims and debts;
- (6) to handle surplus assets after the Company's debt having been fully paid off;
- (7) to represent the Company in any civil proceedings.

The liquidation committee shall thoroughly examine the assets of the Company, and prepare a balance sheet and an inventory of assets. Upon completion, the liquidation committee shall formulate a proposal for liquidation and submit the same to the general meeting or the relevant authorities for confirmation. Where the Company is liquidated by reason of dissolution, if the liquidation committee, having thoroughly examined the Company's assets and having prepared a balance sheet and assets list, discovers that the Company's assets are insufficient to pay its debts in full, it shall immediately apply to the People's Court for a declaration of insolvency. After the People's Court has declared the Company insolvent, the Company's liquidation committee shall hand over any matters regarding the liquidation to the People's Court.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the receipts and payments and financial accounts and records during the period of liquidation, which shall be audited by the PRC certified public accountants and submitted to the general meeting or the relevant competent authorities for confirmation. The liquidation committee shall also within thirty (30) days after such confirmation, submit the documents referred to in the preceding paragraph to the Company registration authority and apply for the deregistration of the Company, and publish an announcement relating to the discontinuation of the Company.

OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS

General Provisions

The Company is a joint stock limited company of perpetual existence.

The Company may invest in other enterprises; however, unless stipulated otherwise by law, it may not become an investor that bears joint and several liability for the debts of the enterprise in which it invests.

From its effective date, the Articles of Association of the Company shall be a legally binding document that regulates the rights and liabilities between the Company and the Shareholders and among the Shareholders.

Without violation of the provisions of the Articles of Association, the Shareholders may sue the Company and other Shareholders, Shareholders may also sue Directors, Supervisors, manager and other senior management officers of the Company. The Company may sue Shareholders. For the purpose of the above paragraph, the term “sue” shall include the initiation of proceedings in a court or the application of arbitration to an arbitration institution.

Shares and Transfers

The Company may increase its capital in the following manners:

- (1) issue of Shares to the public;
- (2) private placement of Shares;
- (3) issue of bonus Shares or placement of new Shares to existing Shareholders;
- (4) increase share capital by conversion of reserves;
- (5) other manners permitted under the laws and administrative regulations and approved by the CSRC.

The Company’s increase of capital by way of issuing new Shares shall be in accordance with the laws and administrative regulations of PRC and with the approval according to the procedures as required by the Articles of Association.

The Company may reduce its registered capital in accordance with the PRC Company Law, other applicable regulations and the provisions of the Articles of Association. When the Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets. The Company’s registered capital after reduction shall not be less than the statutory minimum amount.

The transfer and assignment of any of the Shares shall be registered in the share registry which is designated by the Company. Subject to the approval of the securities regulatory authority of the State Council, holders of the Domestic Shares may transfer their Shares to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing and trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange. No extraordinary general meeting is needed to resolve the listing and trading of the transferred Shares at an overseas stock exchange.

Shareholders

A Shareholder of the Company is a person who lawfully holds the Shares and has his/her name recorded on the register of Shareholders.

A Shareholder enjoys rights, and is subject to obligations, according to the class and number of the Shares he/she holds. Holders of the same class of the Shares enjoy the same rights and subject to the same obligations.

The Shareholders of ordinary shares of the Company shall enjoy the following rights:

- (1) to receive dividends and other distributions proportional to the number of Shares held;
- (2) to attend general meeting either in person or by proxy and exercise the voting right;
- (3) to supervise, advise or inquire the operating activities of the Company;
- (4) to transfer, bestow, or pledge the Shares held in accordance with the laws and regulations and the Articles of Association;
- (5) to be provided with relevant information in accordance with provisions of the Articles of Association;
- (6) to receive distribution of the remaining assets proportional to the number of Shares held when the Company dissolves or liquidates;
- (7) other rights conferred by the laws and regulations and the Articles of Association of the Company.

The Company shall not freeze or otherwise impair any of the rights attaching to any Share merely because the person or persons who are interested directly or indirectly therein have not disclosed his/her/their interests to the Company. Share certificates of the Company shall be in registered form. A Shareholder is not liable to make any further contribution to the share capital other than the terms agreed.

Share certificates of the Company shall be signed by the chairman of the Board of Directors. In the event that the stock exchange(s) on which the Company's Shares are listed require the signatures of other members of senior management of the Company on the share certificates, the share certificates shall also be signed by such members of senior management. The share certificates shall be effective upon being affixed or printed with the seal of the Company or other securities seals specified. The share certificates shall only be sealed with the Company's seal under the authorization of the Board of Directors. The signatures of the chairman of the Board of Directors or other members of senior management may be printed.

Any person who is registered Shareholder or who requests to have his/her name entered into the register of Shareholders may, if his/her share certificate (the "**Original Certificate**") in respect of Shares in the Company is lost, apply to the Company for a replacement new share certificate in respect of such Shares (the "**Relevant Shares**"). If a holder of Domestic Shares loses his/her Share certificate and applies for a new share certificate, it shall be dealt with in

accordance with Article 143 of the PRC Company Law. If a Shareholder of H Shares loses his/her share certificate and applies for a new share certificate, the issue of such certificate shall comply with the following requirements:

- (1) the applicant shall submit an application to the Company in the form prescribed by the Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the Original Certificate and declaring that no other person is entitled to be registered as a Shareholder in respect of the Relevant Shares;
- (2) before the Company decides to issue the new share certificate, no statement made by any person other than the applicant declaring that he/she shall be registered as a Shareholder of such Shares;
- (3) if the Company decides to issue a new share certificate to the applicant, it shall make an announcement of its decision at least once every thirty (30) days for a period of ninety (90) days in such newspapers as may be designated by the Board of Directors;
- (4) the Company shall have, prior to publication of announcement regarding to its decision to issue a new share certificate, delivered to the Hong Kong Stock Exchange a copy of the announcement to be published. The Company may publish the announcement upon receiving a confirmation from the Hong Kong Stock Exchange that the announcement has been exhibited in the premises of the Hong Kong Stock Exchange. The announcement shall be exhibited in the premises of the Hong Kong Stock Exchange for a period of ninety (90) days.

If the application for issuing a new share certificate not be approved by the registered Shareholders of the Relevant Shares, the Company shall send a copy of the announcement to be published to such Shareholders by post;

- (5) if, upon expiration of the ninety (90)-day period referred to in the above Items (3) and (4), the Company has not received from any person notice of any disagreement to such replacement of Share, the Company may issue a replacement of new share certificate to the applicant accordingly;
- (6) where the Company issues a replacement of new share certificate under this clause, it shall immediately cancel the Original Certificate and enter the cancelation and replacement issue in the register of Shareholders accordingly; and
- (7) all expenses relating to the cancelation of an Original Certificate and the issue of a replacement of new share certificate by the Company shall be borne by the applicant. The Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.

Untraceable Members

The Company has the power to cease sending dividend warrants by post to a holder of overseas-listed-foreign Shares, but the Company may exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered. The Company shall not exercise power to sell the Shares of a Shareholder of the overseas-listed-foreign-Shares who is untraceable unless:

- (1) the Company has distributed dividends for at least three times in respect of such Shares during a period of 12 years, but none of such dividends was claimed; and
- (2) upon the expiration of the 12 years the Company gives notice of its intention to dispose the Shares by way of an advertisement published in one or more newspapers and notifies the Hong Kong Stock Exchange of such intention.

The Board of Directors

The Board of Directors shall be accountable to the general meeting of the Shareholders, and shall exercise the following functions and powers:

- (1) to be responsible for the convening of and reporting to the general meeting;
- (2) to implement the resolutions passed by the general meeting;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's preliminary and final annual financial budgets;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to make plans for the Company's increase or decrease in its registered capital and bonds issuance;
- (7) to formulate plans for the Company's merger, division, or dissolution;
- (8) to determine the Company's internal management structure;
- (9) to appoint or remove the Company's manager and to engage or remove the Company's deputy manager and other members of senior management including the responsible person for the finance affairs, and to determine their remuneration and payment method;
- (10) to formulate the Company's basic management system;

(11) to formulate proposals for any amendment to the Company's Articles of Association;

(12) to exercise any other functions and powers conferred upon by the Articles of Association or the general meeting of the Company.

Resolutions regarding Item (6), (7) and (11) above shall be passed by over two thirds of the total number of the Directors, and resolutions in relation to the rest of the circumstances above shall be passed by over half of the total number of the Directors.

Meetings of the Board of Directors shall be held regularly at least four times each year and shall be convened by the chairman of the Board of Directors. All Directors shall be notified fourteen (14) days before the date of the meeting. A quorum will be formed by more than half of the Directors (including the proxies) attending a Board meeting in person. If a Director is unable to attend a Board meeting, he/she may appoint another Director by a written power of attorney to attend on his/her behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other Directors shall exercise their power as Directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his/her rights to vote at that meeting. Each Director shall have one vote. Unless specified otherwise in the Articles of Association, resolutions of the Board of Directors shall be passed by more than half of all the Directors. In the case of an equality of votes cast for and against a resolution, the chairman shall have the right to cast an additional vote.

Independent Non-executive Directors

The Board of Directors shall include three independent non-executive Directors at all times. The independent non-executive Directors shall be directly accountable, and report, to the general meeting, the securities regulatory authorities and other relevant government authorities.

At least one of the independent non-executive Directors shall have appropriate professional qualifications or accounting or related financial management expertise. Moreover, at least one of the independent non-executive Directors shall be ordinarily resident in Hong Kong.

Secretary to the Board of Directors

The secretary to the Board of Directors shall be a natural person who has the requisite professional knowledge and experience appointed and removed by the Board.

The Company Secretary

The Board of Directors should approve the selection, appointment or dismissal of the company secretary, and a Board meeting should be held to discuss the appointment and dismissal of the company secretary and the matter should be dealt with by a physical Board meeting rather than a written resolution. The company secretary shall be a person by virtue of his/her academic or professional qualifications or relevant experience, who is capable of performing the functions of company secretary.

Board of Supervisors

The Company shall have a Board of Supervisors.

The Board of Supervisors shall be comprised of three members, one of whom shall be the chairman of the Board of Supervisors. The term of office of Supervisors shall be three years, renewable upon reelection.

The election or removal of the chairman of the Board of Supervisors shall be decided by two-thirds or more of the Supervisors. The decisions of the Board of Supervisors shall be made by the affirmative vote of two-thirds or more of the Supervisors. The Directors and senior officers of the Company shall not act concurrently as Supervisors.

The Board of Supervisors shall be held accountable to the general meeting and exercise the following functions and powers in accordance with the laws:

- (1) to inspect the Company's financial affairs;
- (2) to supervise the acts of the Directors, manager and other members of senior management who have violated laws, administrative regulations, the Articles of Association or the resolutions of the general meeting;
- (3) to demand rectification from Directors, manager or any other members of senior management should their acts be deemed to be detriment to the Company's interests;
- (4) to review such financial information as the financial statements, business reports and any plans for distribution of profits to be submitted by the Board of Directors to the general meeting, and to retain, on the Company's behalf any certified public accountants or chartered auditors to assist in the review of such information should any doubt arises with respect thereof;
- (5) to propose the convening of extraordinary general meetings;
- (6) to coordinate with Directors on behalf of the Company or initiate legal proceedings against the Directors;
- (7) to perform and exercise other functions and powers designated by Shareholders at general meetings.

Manager of the Company

The manager of the Company shall be accountable to the Board of Directors and exercise the following functions and powers:

- (1) to operate and manage the business of the Company as well as implement resolutions of the Board of Directors;
- (2) to implementing the Company's annual operation and investment plan;
- (3) to make plans for the structuring of the Company's internal management departments;
- (4) to formulate the Company's basic management system and internal management structure;
- (5) to formulate regulations for the Company;
- (6) to propose to appoint or remove deputy managers and other members of senior management (including the responsible person for the finance affairs);
- (7) to appoint or remove management staff except those that shall be appointed or removed by the Board of Directors;
- (8) to exercise other functions and powers conferred upon by the Articles of Association and the Board of Directors.

Common Reserve Fund

After making up for the losses and making contributions to the common reserve fund, any remaining after tax profits (the lower of the profits after tax in accordance with the IFRS and PRC GAAP) may be distributed to the Shareholders in proportion to their respective shareholdings, except it is stipulated in the Articles of Association that profit distributions shall not be made in accordance with the shareholding proportion.

The common reserve fund of the Company shall be used to make up for its losses, increase the scale of production and operation of the Company or convert the same into the capital of the Company to increase the amount thereof, provided that the capital common reserve fund shall not be applied to making up the losses of the Company.

Upon the conversion of the statutory common reserve fund to the registered capital, the amount retained in such common reserve fund shall not be less than 25% of the registered capital before the said conversion.

Dispute Resolution

The Company shall abide by the following principles for dispute resolution:

- (1) Any disputes or claims: (i) between the Company and the Directors or among the members of senior management; and (ii) between holders of foreign Shares (including holders of overseas-listed-foreign-Shares and holders of non-listed-foreign Shares) and the Company, between holders of foreign Shares (including holders of overseas-listed-foreign Shares and holders of non-listed-foreign Shares) and the Directors, Supervisors, manager or other members of senior management, and between holders of overseas-listed-foreign Shares and holders of non-listed-foreign Shares or holders of Domestic Shares, with respect to any rights or obligations by virtue of the Articles of Association, PRC Company Law, the Special Regulations and any rights or obligations conferred upon or imposed by any other relevant laws and administrative regulations concerning the affairs of the Company, shall be submitted to arbitration by the parties concerned. When the aforementioned dispute or claim of rights is submitted to arbitration, the entire claim or dispute shall be submitted to arbitration, and all persons whose causes of action were based on the same ground, giving rise to the dispute or claim or whose participation shall be necessary for the resolution of such dispute or claim, shall, where such party is the Company, or the Shareholders, Directors, Supervisors, manager, or other members of senior management of the Company, shall abide by the arbitration. Disputes with respect to the definition of Shareholders and disputes concerning the register of Shareholders need not be resolved by arbitration;
- (2) The applicant for arbitration may select an arbitration to be administered either by the CIETAC in accordance with its rules, or the HKIAC in accordance with its Securities Arbitration Rules.

Once the applicant for arbitration submits a dispute or claim of rights to arbitration, the other party shall submit to the arbitration institution selected by the applicant.

If the applicant selects the HKIAC as the arbitration institution, either party to the dispute or claim may apply for the arbitration venue to be in Shenzhen, in accordance with the Securities Arbitration Rules of the HKIAC;

- (3) Unless laws and regulations specify otherwise, the laws and regulations of PRC are applicable to arbitration of settling the dispute or claim for rights as described in Item (1) above;
- (4) The award of the arbitration institution shall be conclusive and binding on all the parties;

- (5) The agreement to arbitrate is made by the Director or members of senior management of with the Company on its own behalf and on behalf of each Shareholder; and
- (6) any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was established in the PRC as a limited liability company under the name of Jilin Province Changre New Energy Co., Ltd. (吉林省長熱新能源有限公司) on 23 October 2017. It was subsequently renamed as Jilin Province Chuncheng Heating Limited Liability Company* (吉林省春城熱力有限責任公司). On 30 May 2018, upon the approval from the SASAC Changchun and upon registration with relevant government authorities, our Company was converted into a joint stock limited liability company, and was renamed as Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司). The registered office and headquarters of our Company in the PRC is No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, China.

Our Company has established a place of business in Hong Kong at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 21 June 2019. Ms. Feng Yan and Ms. Tong Suet Fong have been appointed as the authorized representatives of our Company under the Companies Ordinance for the acceptance of service of process on behalf of our Company in Hong Kong. Their address for acceptance of service of process is 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

As we are incorporated in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus. A summary of our Articles of Association is set out in Appendix V to this prospectus.

2. Changes in the registered capital of our Company

As at the date of establishment of our Company, the initial registered capital was RMB50,000,000, all of which was fully paid up.

On 26 April 2018, upon the approval by SASAC Changchun, Changchun Heating Group, Changchun SCIO Group and our Company entered into a capital increase agreement and the registered capital of our Company was increased to RMB53,763,400.

On 26 April 2018, upon the approval by SASAC Changchun and registration with Changchun Administration of Industry and Commerce, the registered capital of our Company was increased from RMB50,000,000 to RMB53,763,400.

On 30 May 2018, upon registration with Changchun Administration of Industry and Commerce, we were converted into a joint stock limited liability company with a registered capital of RMB350,000,000, all of which was fully paid up.

Immediately upon the completion of the Global Offering, but without taking into account any H Shares which may be issued by our Company pursuant to the Over-allotment Option, the registered capital of our Company is expected to be RMB466,700,000, made up of 350,000,000 Domestic Shares and 116,700,000 H shares, with nominal value of RMB1.00 each.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this prospectus.

3. Changes in the registered capital of our Subsidiaries

(a) Subsidiaries of our Company

Our Company's subsidiaries are referred to in the Accountants' Report, a list of which is set out in Appendix I to this prospectus.

(b) Changes in share capital of the subsidiaries of our Company

There have been no changes in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Resolutions passed at our extraordinary Shareholders' meetings on 1 February 2019 and 19 August 2019

At our extraordinary Shareholders' meetings held on 1 February 2019 and 19 August 2019, among other things, the following resolutions were passed by the Shareholders:

- (a) approving the issue of the H Shares by our Company and the Listing, whereby the number of H Shares to be issued shall not exceed a total of 116,700,000 H Shares (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option) and subsequent listing of such H Shares on the Hong Kong Stock Exchange;
- (b) the granting of the Over-allotment Option in respect of no more than 15% of the number of the H Shares issued as above-stated;
- (c) subject to the completion of the Global Offering, the adoption of the Articles of Association which shall become effective on the Listing Date and the authorization to our Board to amend the Articles of Association in accordance with the relevant laws and regulations and the requirements by the relevant government authorities; and
- (d) authorizing our Board to handle all other matters relating to, among other things, the issue of the H Shares and the Listing.

5. Reorganization

We underwent the Reorganization, details of which are set out in “History, Development and Reorganization”. As confirmed by our PRC Legal Advisers, the Reorganization of the Group was in compliance with the provisions of relevant PRC laws and regulations in all material aspects and the Group had obtained all necessary approvals from the relevant authorities in the PRC related to the Reorganization under the relevant PRC laws and regulations.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of Material Contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material to our business and a copy of each has been delivered to the Registrar of Companies for registration:

- (a) an agreement to transfer state-owned assets at nil consideration dated 31 December 2017, entered into between Changchun Heating Group and our Company in respect of, among others, the transfer of relevant state-owned equity interest and heat-supply related assets to our Company at nil consideration, further details of which are set out in “History, Development and Reorganization – Our Corporate History”;
- (b) an agreement to transfer state-owned assets at nil consideration dated 31 December 2017, entered into between Changchun Runfeng and Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司) in respect of, among others, the transfer equity interest in Changchun Runfeng Xiyu Services Co., Ltd.* (長春市潤鋒洗浴服務有限公司) and Changchun Runfeng Yuanlin Lvhu Co., Ltd.* (長春市潤鋒園林綠化有限公司) to Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司) at nil consideration, further details of which are set out in “History, Development and Reorganization – Our Corporate History”;
- (c) an agreement to transfer state-owned assets at nil consideration dated 12 April 2018, entered into between Changchun Heating Group and our Company in respect of, among others, the transfer of relevant state-owned equity interest and heat-supply related assets to our Company at nil consideration, further details of which are set out in “History, Development and Reorganization – Our Corporate History”;
- (d) an agreement to transfer state-owned assets at nil consideration dated 12 April 2018, entered into between Changchun Runfeng and Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司) in respect of, among others, the transfer of equity interest in Changchun Runfeng Xiyu Services Co., Ltd.* (長春市潤鋒洗浴服務有限公司) and Changchun Runfeng Yuanlin Lvhu Co., Ltd.* (長春市潤鋒園林綠

化有限公司) to Jilin Province Changre Properties Co., Ltd.* (吉林省長熱物業有限公司) at nil consideration, further details of which are set out in “History, Development and Reorganization – Our Corporate History”;

- (e) the capital increase agreement dated 26 April 2018, entered into between Changchun Heating Group, Changchun SCIO Group and our Company, in respect of a total investment of RMB28,000,000 of which RMB3,763,400 was included as registered capital of our Company, further details of which are set out in “History, Development and Reorganization – Reorganization – 3. Introduction of new shareholder as a Pre-IPO investor and Capital Injection”;
- (f) the undertaking relating to certain matters of the land and buildings of pump stations dated 3 January 2019 provided by our Controlling Shareholder in favor of our Company in respect of any losses or expenses which may be incurred by us as a result of users’ title defects of the heat exchange stations, further details of which are set out in “Business – Properties – Users’ Title Defects associated with the Heat Exchange Stations Which We Used – Remedial Measures Taken and Enhanced Internal Control Measures”;
- (g) the Non-competition Agreement, further details of which are set out in “Relationship with our Controlling Shareholder – Non-competition Agreement”; and
- (h) the Hong Kong Underwriting Agreement, details of which are set out in “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement”.

2. Intellectual Property Rights of our Group


As of the Latest Practicable Date, we have registered the following intellectual property rights which, in the opinion of our Directors, are material to our Group's business.

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks, which we consider to be material to the business of our Group:

No.	Trademark	Registration Number	Place of Registration	Registered Owner	Class	Valid Period
1		304849615	Hong Kong	Our Company	6, 7, 19, 35, 36, 37, 39, 41, 42	7 March 2019 to 6 March 2029
2		304849589	Hong Kong	Our Company	6, 7, 19, 35, 36, 37, 39, 41, 42	7 March 2019 to 6 March 2029

As of the Latest Practicable Date, we had applied for the registration of the following trademarks which we consider to be material to the business of our Group:

No.	Trademark	Application Number	Name of Applicant	Class	Place of Application	Date of Application
1		35728081 35713603 35711408 35711389 35711374 35715771 35726568 35708067 35711330	Our Company	6, 7, 19, 35, 36, 37, 39, 41, 42	The PRC	3 January 2019

As at the Latest Practicable Date, pursuant to the Trademark License Agreement, we are entitled to use the following trademarks which we consider to be material to the business of our Group:

No.	Trademark	Place of Registration	Registration Number	Name of the Registered Proprietor	Class	Expiry Date
1.		The PRC	22024226 22024432 22024524 22024685 22025567	Changchun Heating Group	6, 7, 19, 35, 41	13 January 2028
2.		The PRC	22024766	Changchun Heating Group	36	20 September 2028
3.		Hong Kong	304589867	Changchun Heating Group	6, 7, 19, 35, 36, 37, 39, 41, 42	8 July 2028

(b) Copyrights

As of the Latest Practicable Date, we are the registered owner of the following copyrights granted in the PRC which we consider to be material to our business:

No.	Owner	Name of the Copyright	Registration Number	Registration Date
1.	our Company	Human Resources System of Jilin Province Chuncheng Heating Co Ltd V1.0 (春城熱力人力資源管理系統V1.0)	2018SR506196	2 July 2018
2.	our Company	Fuel Management System of Jilin Province Chuncheng Heating Co Ltd V1.0 (春城熱力燃料管理系統V1.0)	2019SR0057792	17 January 2019

No.	Owner	Name of the Copyright	Registration Number	Registration Date
3.	Heating Engineering Design	Engineering Construction Design Support System V1.0 (工程施工設計輔助系統V1.0)	2019SR0427134	6 May 2019
4.	Heating Engineering Design	Pipe Gallery Heating Pipelines Support Stress Analysis Software V1.0 (管廊熱力管道支架應力分析軟件V1.0)	2019SR0426642	6 May 2019
5.	Heating Engineering Design	Heating Pipeline Network Anchor Block Stress Analysis Software V1.0 (供熱管網固定墩應力分析軟件V1.0)	2019SR0427344	6 May 2019
6.	Heating Engineering Design	Boiler Room Smoke Balance Analysis Software V1.0 (鍋爐房煙平衡分析軟件V1.0)	2019SR0429509	6 May 2019
7.	Heating Engineering Design	Boiler Infrastructure Design Software V1.0 (鍋爐基礎結構設計軟件V1.0)	2019SR0429522	6 May 2019
8.	Heating Engineering Design	Engineering Design Management System V1.0 (工程設計管理系統V1.0)	2019SR0428328	6 May 2019
9.	Heating Engineering Design	Boiler Room Electricity Load Calculation Software V1.0 (鍋爐房用電負荷計算軟件V1.0)	2019SR0431233	7 May 2019

No.	Owner	Name of the Copyright	Registration Number	Registration Date
10.	Heating Engineering Design	Boiler Room Electrical Lightning Protection Calculation Software V1.0 (鍋爐房電氣防雷計算軟件V1.0)	2019SR0434957	7 May 2019
11.	Heating Engineering Design	Heating Pipeline Network Hydraulic Calculation Software V1.0 (熱力管網水力計算軟件V1.0)	2019SR0434978	7 May 2019
12.	Heating Engineering Design	Boiler Room Wind Balance Analysis Software V1.0 (鍋爐房風力平衡分析軟件V1.0)	2019SR0435010	7 May 2019
13.	Heating Engineering Design	Heating Pipeline Network Stress Calculation Software V1.0 (熱力管網應力計算軟件V1.0)	2019SR0434972	7 May 2019
14.	Heating Engineering Design	Boiler Room Hydraulic Calculation Software V1.0 (鍋爐房水力計算軟件V1.0)	2019SR0434963	7 May 2019
15.	Heating Engineering Design	Boiler Room Pipeline Stress Calculation Software V1.0 (鍋爐房管道應力計算軟件V1.0)	2019SR0434699	7 May 2019
16.	Heating Engineering Design	Boiler Room Coal Bucket Structure Design Software V1.0 (鍋爐房煤鬥結構設計軟件V1.0)	2019SR0434749	7 May 2019

No.	Owner	Name of the Copyright	Registration Number	Registration Date
17.	Heating Engineering Design	Engineering Technical Research and Development Personnel Management System V1.0 (工程技術研發人員管理系統V1.0)	2019SR0431224	7 May 2019
18.	our Company	Chungcheng Heating Smart Customer Service Management System V1.0 (春城熱力智能客服管理系統V1.0)	2019SR0754062	20 May 2019
19.	our Company	Engine Room Temperature and Humidity Monitoring System V1.0 (機房溫濕度監測系統V1.0)	2019SR0820222	15 November 2018
20.	our Company	Engine Room Network Signal Abnormal Warning System (機房網絡信號異常預警系統)	2019SR0824663	8 March 2018
21.	our Company	Engine Room Access Control Software V1.0 (機房門禁管理軟件V1.0)	2019SR0820229	27 December 2018
22.	our Company	Engine Room Facilities and Equipment Integrated Management System V1.0 (機房設施設備物聯網集成管理系統V1.0)	2019SR0824661	8 June 2018

No.	Owner	Name of the Copyright	Registration Number	Registration Date
23.	our Company	Engine Room Environment Monitoring and Management Software V1.0 (機房 環境監控管理軟件 V1.0)	2019SR0824665	18 October 2018
24.	our Company	Jilin Province Chuncheng Heating Area and Inspection Management System V1.0 (吉林省春城熱 力面積與稽查管理系 統V1.0)	2019SR0754070	20 May 2019
25.	our Company	Communication Room Data Application Software V1.0 (通信 機房數據應用軟件 V1.0)	2019SR0842040	11 July 2018
26.	our Company	Chuncheng Heating Coal-fired Boiler Automatic Combustion Control System Software V1.0 (春城熱力燃煤 鍋爐自動燃燒控制系 統軟件V1.0)	2019SR0906278	20 October 2018

As at the Latest Practicable Date, we had applied for the registration of the following copyrights in the PRC which we consider to be material to the business of our Group:

No.	Applicant	Name of the Copyright	Application Number	Application Date
1.	our Company	Chuncheng Heating Vehicle Management System V1.0 (春城熱力 車輛管理系統V1.0)	2019R11S0927656	28 August 2019

No.	Applicant	Name of the Copyright	Application Number	Application Date
2.	our Company	Chuncheng Heating Tools Management System V1.0 (春城熱力工器具管理系統V1.0)	2019R11S0935634	29 August 2019
3.	our Company	Chuncheng Heating Technology Data Management System V1.0 (春城熱力技術資料管理系統V1.0)	2019R11S0927302	28 August 2019
4.	our Company	Chuncheng Heating Equipment Management System V1.0 (春城熱力設備管理系統V1.0)	2019R11S0927647	28 August 2019
5.	our Company	Chuncheng Heating Special Workers Management System V1.0 (春城熱力特殊工種人員管理系統V1.0)	2019R11S0927305	28 August 2019
6.	our Company	Chuncheng Heating Thermal Energy Analysis and Assessment System Software V1.0 (春城熱力能耗分析考核系統軟件V1.0)	2019R11L971077	29 July 2019

(c) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which we consider to be material to the business of our Group:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1.	jlccpt.com	our Company	20 June 2018	20 June 2028
2.	cc-tp.com.cn	our Company	20 June 2018	20 June 2028

(d) Patents

As of the Latest Practicable Date, we have registered the following patent in the PRC which we consider to be material to the business of our Group:

No.	Patent	Patentee	Patent Number	Patent Type	Application Date	Grant Date	Expiry Date
1.	Energy Storage Wall with Heating and Cooling Functions (一種具有供暖和降溫功能的蓄能牆體)	Heating Engineering Design	201710568939.1	Invention	13 July 2017	5 March 2019	12 July 2027
2.	Computer Software Security Management Device (一種計算機軟件安全管理裝置)	our Company	201820881987.6	Utility Model	8 June 2018	5 April 2019	7 June 2028

As of the Latest Practicable Date, we had applied for the registration of the following patents in the PRC which we consider to be material to the business of our Group:

No.	Patent	Applicant(s)	Type	Application Number	Application Date
1.	Online Flushing Device for Changing Fluid Direction of Plate Heat Exchange (一種改變板式換熱器流體方向的在線沖洗裝置)	our Company	Utility Model	201920762665.4	25 May 2019
2.	Non-regeneration Softening Water Device (一種無再生軟化水裝置)	our Company and Jilin Province Yiqi Environmentally Friendly Technologies Co., Ltd.* (吉林省一起環保科技有限公司)	Utility Model	201920791931.6	29 May 2019
3.	Efficient Bypass Water Purification Device (一種高效旁路水質淨化裝置)	our Company and Jilin Province Yiqi Environmentally Friendly Technologies Co., Ltd.* (吉林省一起環保科技有限公司)	Utility Model	201920793027.9	29 May 2019

No.	Patent	Applicant(s)	Type	Application Number	Application Date
4.	Adjustable Precision Backwashing Precision Filter (一種可調精度反沖洗精密過濾器)	our Company and Jilin Province Yiqi Environmentally Friendly Technologies Co., Ltd.* (吉林省一起環保科技有限公司)	Utility Model	201920793026.4	29 May 2019
5.	Automobile Side Protection Device Using Cylindrical Roller or Spherical Roller (一種利用柱形滾或球形滾的汽車側面防護裝置)	our Company and Jilin Tianliang Artificial Environmental Technologies Co., Ltd.* (吉林天亮人工環境科技有限公司)	Invention	201910516234.4	14 June 2019
6.	Automobile Side Protection Device Using Cylindrical Roller or Spherical Roller (一種利用柱形滾或球形滾的汽車側面防護裝置)	our Company and Jilin Tianliang Artificial Environmental Technologies Co., Ltd.* (吉林天亮人工環境科技有限公司)	Utility Model	201920896526.0	14 June 2019
7.	Computer Room Personnel Entry and Exit Recording Device for Management (一種計算機機房管理用人員進出記錄裝置)	our Company	Utility Model	201921052504.2	8 July 2019
8.	Wall Pipe Reserved Hole Sealing Block Masonry Module (牆體管道預留洞口封堵砌體模塊)	Heating Engineering Design	Utility Model	201921219187.9	31 July 2019
9.	Remote Temperature Collector (一種遠程溫度採集器)	our Company	Utility Model	201921281541.0	8 August 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

1. Particulars of Directors' and Supervisors' Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of the Directors entered into a service contract with our Company. Each service contract is for a term of three years commencing on the Listing Date.

Save as disclosed in this prospectus, none of our Directors or Supervisors in their respective capacity as Director or Supervisor (as the case may be) has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation other than statutory compensation).

2. Emolument of Directors and Supervisors

The aggregate amounts of emolument (including fees, salaries, remuneration, pension, discretionary bonus and other welfares, housing and other allowances and other benefits in kind) which were paid to the Directors and Supervisors during the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019 were approximately RMB1,716,000, RMB2,165,000, RMB2,275,000 and RMB686,000, respectively.

Save as disclosed above, no other payments have been paid or are payable by us to the Directors and Supervisors in respect of the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019.

Under the existing arrangements currently in force, the aggregate emolument payable to the Directors and the Supervisors for the year ending 31 December 2019 are estimated to be approximately RMB2.6 million and RMB0.2 million, respectively.

Each of the Directors and Supervisors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

There is no arrangement under which any Director has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments by any Director during the current financial year.

D. DISCLOSURE OF INTERESTS

1. Disclosure of Interests of the Directors and Supervisors in our Company and our associated corporations

Immediately following the completion of the Global Offering and assuming no exercise of the Over-allotment Option, none of our Directors, Supervisors and chief executive of our Company has any interests and/or short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or (b) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and Hong Kong Stock Exchange once our H Shares are listed.

2. Disclosure of Interests of Substantial Shareholders of our Company

For information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company, please see the section headed “Substantial Shareholders” in this prospectus.

E. DISCLAIMERS

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) none of our Directors and Supervisors had any interest or short position in any of the Shares, underlying Shares or debentures of our Company or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which (i) will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or (ii) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and Hong Kong Stock Exchange once our H Shares are listed;
- (b) Save as disclosed in the section headed “Substantial Shareholder” in this prospectus, our Directors and Supervisors are not aware of any person who will, immediately after the completion of the Global Offering, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings of any our member of our Group;
- (c) none of our Directors, Supervisors or the parties listed in the paragraph headed “8. Qualification of experts” of this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to our Group, or are proposed to be acquired or disposed of by or leased to our Group;
- (d) save as disclosed in this prospectus, or the Underwriting Agreements, none of our Directors or Supervisors or the parties listed in the paragraph headed “8. Qualification of experts” in this appendix is materially interested in any contract or arrangement at the date of this prospectus which is significant in relation to our business taken as a whole;

- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “8. Qualification of experts” of this appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiary; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors or Supervisors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of our Company falling to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Hong Kong Stock Exchange;
- (g) none of our Directors, Supervisors, or their respective associates, or any Shareholders (who to the knowledge of the Directors owns more than 5% of our registered share capital), had any interest in our five largest suppliers and our five largest customers;
- (h) none of our Directors or Supervisors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business; and
- (i) none of our Directors or Supervisors has been paid in cash or shares or otherwise by any person during the Track Record Period, as an inducement to join or upon joining the Company, or as compensation for loss of office, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

F. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, we are not engaged in any material litigation, arbitration or administrative proceedings which could have a material effect on our financial condition or results of operations. So far as our Directors are aware, no such litigation, arbitration or administrative proceedings of material importance is pending or threatened against our Company.

3. Restrictions on Share Repurchase

Please see the section headed “Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions – The PRC Company Law, Special Regulations and Mandatory Provisions – Repurchase of Shares” in this prospectus for details.

4. Sole Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS. The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of U.S. dollars 850,000 to act as sponsor to our Company in the Global Offering.

5. Compliance Adviser

We have appointed Messis Capital Limited as our compliance adviser effective from the Listing Date in compliance with Rule 3A.19 of the Listing Rules.

6. Preliminary expenses

The estimated preliminary expenses in relation to the conversion of our Company from a limited liability company into a joint stock limited liability company were approximately RMB1.49 million and were paid or payable by us.

7. Promoter

The promoter of our Company is Changchun Heating Group.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Qualification of experts

The qualifications of the experts, as defined under the Listing Rules, who have given opinions in this prospectus, are as follows:

Name	Qualification
BOCI Asia Limited	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young Commerce & Finance Law Offices Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Certified Public Accountants PRC legal advisers to our Company Independent industry consultant

9. Taxation of holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer are effected on the H Share register of members of our Company, including in circumstances where such transactions are effected on the Hong Kong Stock Exchange. The duty is charged on each of the seller and purchaser at the current rate of HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

10. No material adverse change

Save as disclosed in this prospectus, our Directors has confirmed that there has been no material adverse change in our financial or trading position since 31 March 2019 (being the date to which our latest consolidated financial results were prepared, as set out in the Accountant's Report).

11. Binding effect

This document shall have the effect, if an application is made in pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Consents

Each of BOCI Asia Limited, Ernst & Young, Commerce & Finance Law Offices and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., as referred to in the paragraph headed “8. Qualification of experts” in this appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of any of its certificates, letters, opinions or reports and the references to its or his name included herein in the form and context in which it is included.

None of the experts named above has any shareholding interests in our Company or any subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of its subsidiaries

13. Related party transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in the section headed “Appendix I – Accountants’ Report”.

14. Personal guarantees

Our Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

15. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately but available to the public at the same time, pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

G. MISCELLANEOUS

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus: (i) none of the member of our Group has issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash and (ii) no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any of the shares or loan capital of any member of our Group;
- (b) no share or loan capital of our Group is under option or is agreed conditionally or unconditionally to be put under option;
- (c) there are no founder, management or deferred shares nor any debentures in our Company;
- (d) our Company has no outstanding convertible debt securities;
- (e) there are no arrangements under which future dividends are waived or agreed to be waived;
- (f) there are no procedures for the exercise of any right of preemption or transferability of subscription rights;
- (g) there are no contracts for hire or hire purchase of plant to or by us for a period over one year which are substantial in relation to our business;
- (h) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (i) there are no part of the equity or debt securities of our Company which is currently listed on or dealt in on any stock exchange or trading system and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought; and
- (j) our Company currently does not intend to apply for the status of a Sino-foreign investment joint stock limited company and does not expect to be subject to the Sino-Foreign Joint Venture Law of the PRC.

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE** and **YELLOW** and **GREEN** Application Forms, the written consents referred to under the paragraph headed “F. Other Information – 12. Consents” in Appendix VI to this prospectus and certified copies of the material contracts referred to in the paragraph headed “B. Further Information about the Business – 1. Summary of material contracts” in Appendix VI to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Eversheds Sutherland at 37/F, One Taikoo Place, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Articles of Association;
- (b) the Accountants’ Report from Ernst & Young in respect of the historical financial information of our Group, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of our Group for each of the three financial years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019;
- (d) the report on the unaudited pro forma financial information of our Group from Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (e) copies of the PRC Company Law, the Mandatory Provisions and the Special Regulations, together with unofficial English translations thereof;
- (f) the PRC legal opinion prepared by Commerce & Finance Law Offices in respect of certain aspects of our Group;
- (g) the Frost & Sullivan Report;
- (h) the material contracts referred to in the paragraph headed “B. Further Information about the Business – 1. Summary of material contracts” in Appendix VI to this prospectus;

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (i) the written consents referred to in the paragraph headed “F. Other Information – 12. Consents” in Appendix VI to this prospectus; and
- (j) the service contracts referred to in the paragraph headed “C. Further Information about our Directors and Supervisors – 1. Particulars of Directors’ and Supervisors’ service contracts” in Appendix VI to this prospectus.



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