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

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Jilin Province Chuncheng Heating Company Limited*

吉林省春城熱力股份有限公司

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

(Stock code: 1853)

(1) CONTINUING CONNECTED TRANSACTIONS; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



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

A letter from the Board is set out on pages 1 to 10 of this circular. A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular.

A letter from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 13 to 29 of this circular.

A notice convening the EGM to be held at the Conference Room 907, Chuncheng Heating, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC, at 9:00 a.m. on Monday, 1 November 2021 is set out on pages EGM-1 to EGM-2 of this circular. The accompanying proxy form is for the appointment of proxy to attend the EGM. Whether or not you would attend the EGM, please fill in the accompanying proxy form according to relevant instructions and return it as soon as possible, and not less than 24 hours before the time fixed for the holding of the EGM in any event. The completed and returned proxy form will have no effects on your vote in person in the EGM or any other postponed meetings. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

* For identification purpose only

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DEFINITIONS

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

“2021-2023 Heat Procurement Framework Agreement”	the heat procurement framework agreement dated 15 September 2021 and entered into between the Company (for itself and on behalf of its subsidiaries other than Yatai Heating) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group) in relation to the procurement of heat by the Group (other than Yatai Heating) from the Controlling Shareholder Group. For details, please refer to the section headed “Letter from the Board – The 2021-2023 Heat Procurement Framework Agreement” in this circular
“2021-2023 Heat Procurement Framework Agreement (Datang JV)”	the heat procurement framework agreement dated 29 March 2021 and entered into between the Company (for itself and on behalf of its subsidiaries) and Datang JV, in relation to the procurement of heat by the Group from Datang JV. For details, please refer to the Company’s announcement dated 29 March 2021
“2021-2023 Heat Procurement Framework Agreement (Yatai Heating)”	the heat procurement framework agreement dated 29 October 2020 and entered into between Yatai Heating and Changchun Heating Group in relation to the procurement of heat by Yatai Heating from Changchun Heating Group. For details, please refer to the Company’s announcement dated 29 October 2020
“Board”	the board of Directors
“Changchun Heating Group”	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司), the controlling shareholder of the Company, and a state-owned company established in the PRC on 28 April 1998 which held approximately 69.75% of the total share capital of the Company as at the Latest Practicable Date
“Changchun SASAC”	the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會)
“Company”	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司), presently a joint stock company with limited liability which was incorporated in the PRC on 23 October 2017 and the H Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Continuing Connected Transactions”	the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder Group”	Changchun Heating Group and its subsidiaries (other than members of the Group)
“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 is owned by Changchun Heating Group and Datang Jilin Power Generation Co., Ltd. (大唐吉林發電有限公司) as to 35% and 65%, respectively. It is an associate of Changchun Heating Group and a connected person of the Company
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic Share(s), which are subscribed for in RMB and held by PRC nationals or PRC incorporated entities, and are not listed or traded on any stock exchange
“EGM”	the extraordinary general meeting of the Company to be convened and held on Monday, 1 November 2021 at 9:00 a.m. at the Conference Room 907, Chuncheng Heating, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC to consider, and if thought fit, approve the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries from time to time
“H Share(s)”	overseas listed foreign Share(s), which are subscribed for and traded in HK\$ and listed on the Main Board of the Stock Exchange
“H Shareholder(s)”	holder(s) of H Share(s)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

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“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wang Yuguo, Mr. Fu Yachen and Mr. Poon Pok Man, and formed to advise the Independent Shareholders in relation to the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder
“Independent Financial Adviser”	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders who are not required under the Listing Rules to abstain from voting on the resolution for approving the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder at the EGM
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Latest Practicable Date”	8 October 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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

DEFINITIONS

“Peak-Shaving Boilers”	the two boilers of the Controlling Shareholder Group which are designated as peak-shaving boilers according to the power grid coordination rules for provision of heat during peak time periods in order to respond to suspension or shortage in heat supply from the cogeneration plants
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Annual Caps for Heat Procurement”	the proposed annual caps for the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement as described in the section headed “Letter from the Board – The 2021-2023 Heat Procurement Framework Agreement – 2. Historical transaction amounts and the Proposed Annual Caps for Heat Procurement” in this circular
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Yatai Heating”	Changchun Yatai Heating Company Limited* (長春亞泰熱力有限責任公司), a limited liability company established in the PRC on 30 October 1998 and is a wholly-owned subsidiary of the Company. Yatai Heating is principally engaged in the heat services business
“%”	per cent.

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LETTER FROM THE BOARD



Jilin Province Chuncheng Heating Company Limited*

吉林省春城熱力股份有限公司

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

(Stock code: 1853)

Executive Directors:

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

Registered office in the PRC:

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

Non-executive Director:

Mr. Liu Changchun (*Chairman*)

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

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

Independent non-executive Directors:

Mr. Wang Yuguo
Mr. Fu Yachen
Mr. Poon Pok Man

Principal place of business in Hong Kong:

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

15 October 2021

To the Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 15 September 2021 in relation to, among others, the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) further details of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder; and (iv) further information required to be disclosed under the Listing Rules.

THE 2021-2023 HEAT PROCUREMENT FRAMEWORK AGREEMENT

1. Principal Terms

Date:	15 September 2021
Parties:	<p>(a) The Company (for itself and on behalf of the its subsidiaries other than Yatai Heating), as purchaser</p> <p>(b) Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group), as supplier</p>
Subject matter:	<p>The Group (other than Yatai Heating) shall procure heat from the Controlling Shareholder Group in accordance with the requirements prescribed by the Group (other than Yatai Heating).</p> <p>The Group (other than Yatai Heating) will enter into separate contracts with the Controlling Shareholder Group in respect of the Group's (other than Yatai Heating's) orders for heat.</p> <p>For the avoidance of doubt, Yatai Heating's procurement of heat from the Controlling Shareholder Group shall be governed by the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating).</p>
Term:	From the date when the resolution for approving the 2021-2023 Heat Procurement Framework Agreement is approved at the EGM to 31 December 2023 (both days inclusive)
Pricing terms and pricing policy:	The parties agree that the intended unit price per GJ to be RMB62.08, and that the actual heat fee payable by the Group (other than Yatai Heating) to the Controlling Shareholder Group shall be determined through fair negotiation between the parties as to be set out in the relevant separate contracts and on terms no less favourable than those offered to the Group (other than Yatai Heating) by Independent Third Parties.

LETTER FROM THE BOARD

In determining the actual heat fee per GJ payable by the Group (other than Yatai Heating), the parties shall make references to the relevant historical prices for heat supply and collect industry information on market price and profitability from various sources, such as state-prescribed price, state-recommended price and other similar heat service providers, and determine the heat fee based on average market profit rate or on cost-plus basis in order to ensure the fairness and reasonableness of the rate. For the avoidance of doubt, the actual heat fee per GJ payable by the Group (other than Yatai Heating) to the Controlling Shareholder Group shall be the lower of (i) the intended unit heat price per GJ of RMB62.08; and (ii) the heat fee per GJ calculated using the cost-plus approach as described below. Furthermore, it is the intention of the parties that the actual unit price shall not be higher than RMB62.08 per GJ.

When implementing the pricing policy mentioned above, the parties to the 2021-2023 Heat Procurement Framework Agreement mainly adopt the cost-plus basis to determine the unit price. The costs of Changchun Heat Group to be considered mainly comprise price of coal, water, electricity, natural gas, fixed asset depreciation, wages and repairs etc..

The planning and management department of the Group is responsible to monitor these costs.

Cost of coal

Cost of coal is the largest component of the heat production cost of coal-fired boilers. From time to time, staff from the planning and management department will communicate with the government, other heat service providers and coal suppliers to collect the latest information regarding change in coal price which may arise from market fluctuation. In addition, the planning and management department also refers to Bohai-Rim Steam-Coal Price Index* (環渤海動力煤價格指數) as published from time to time by China National Coal Association* (中國煤炭工業協會) (<http://www.coalchina.org.cn/index.php>) for market price of coal.

Water and electricity prices

As water and electricity prices are set by the government, the planning and management department keeps track of the changes in these prices as from time to time announced by the government.

LETTER FROM THE BOARD

Profit margin

A margin at a rate of approximately 10% will be applied in determining the unit price. Having considered (i) the average profit margin for industrial enterprises of nationwide size as published by the National Bureau of Statistics* (國家統計局) of approximately 7.1% for January to July 2021; (ii) different industries and operators in different regions may have different cost structures; and (iii) the expected profit margin of approximately 10% charged by Changchun Heating Group (which operates in Jilin Province) under the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) which was entered into between Changchun Heating Group and Yatai Heating on 29 October 2020, the Directors consider that a margin of approximately 10% for heat service providers operating in the Group's vicinity is fair and reasonable. The Group will gather interenterprise unit prices of heat service providers in the vicinity of the regions to which the Group supplies heat as reference. However, given that there are no state-prescribed or state-recommended prices for these inter-enterprise unit prices and that these unit prices vary depending on factors such as the quality of the providers' production process which affects their heat production efficiency, the Directors are of the view that although the unit prices of other heat service providers may be used as reference, they may not have sufficient level of reliance as direct comparable to the unit prices determined under the 2021-2023 Heat Procurement Framework Agreement.

Determination of the intended unit price of RMB62.08 per GJ

By adopting the aforementioned methods and procedures and having taking into account the average costs of coal (approximately RMB626.5/tonne), electricity (approximately RMB0.7/kWh electricity generated), water (approximately RMB6.64/tonne), natural gas, fixed asset depreciation, wages and repairs over the past 12-month period and a margin at a rate of approximately 10%, the parties determined that the intended unit price per GJ to be RMB62.08, which is intended to be the highest unit price to be charged by the Controlling Shareholder Group under the 2021-2023 Heat Procurement Framework Agreement.

LETTER FROM THE BOARD

2. Historical transaction amounts and the Proposed Annual Caps for Heat Procurement

Pursuant to the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating), Yatai Heating procured heat in an aggregate amount of approximately RMB36.37 million from the Controlling Shareholder Group between 1 January 2021 and the Latest Practicable Date. Save for the aforementioned, the Group has not procured any heat from the Controlling Shareholder Group since the Company's incorporation and up to the Latest Practicable Date.

The table below sets out the Proposed Annual Caps for Heat Procurement in respect of the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement for the three years ending 31 December 2023:

For the year ending 31 December		
2021	2022	2023
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
24,832	93,120	93,120

3. Reasons for the Proposed Annual Caps for Heat Procurement

In arriving at the Proposed Annual Caps for Heat Procurement, the Directors considered factors including (i) the expected supply of heat generated from the Controlling Shareholder Group's Peak-Shaving Boilers for each of the three years ending 31 December 2023; (ii) the intended unit price per GJ of RMB62.08; and (iii) based on management's experience and having taking into consideration the expected continued increases in the cost of raw materials (in particular, coal prices) and wages going forward, a 10% buffer has been factored in to cater for any possible unforeseeable circumstances such as fluctuation relating to the actual unit price and/or heat supply volume to be supplied by the Controlling Shareholder Group's Peak-Shaving Boilers.

In particular, since the heat supply period in Jilin Province usually runs from October to April of the following year, hence the number of months in which the Group (other than Yatai Heating) would procure heat from the Controlling Shareholder Group pursuant to the 2021-2023 Heat Procurement Framework Agreement would be approximately two, seven and seven for the year ending 31 December 2021, 2022 and 2023, respectively. Furthermore, the Group's heat service area is expected to increase by approximately 3 million sq.m. as the Directors considered that there would be construction and development of residential areas and public infrastructure such as hospital within the Group's heat service area in 2021 and 2022. Based on the usual annual heat consumption rate of the Group's customers of 0.5 GJ per sq.m., it is expected that there would be an additional demand for heat by the Group (other than Yatai Heating) of approximately 0.4 million GJ, 1.5 million GJ and 1.5 million GJ for each of the three years ending 31 December 2023, respectively. As such, it is expected that the Proposed Annual Caps for Heat Procurement for the years ending 31 December 2022 and 2023 will be higher than that for the year ending 31 December 2021.

LETTER FROM THE BOARD

4. Reasons for and benefits of entering into the 2021-2023 Heat Procurement Framework Agreement

While the Group's existing heat production capacity is sufficient to supply heat to its heat service area during non-peak periods, as disclosed in the paragraph headed "3. Reasons for the Proposed Annual Caps for Heat Procurement", with effect from the 2021-2022 heat supply period, the Group's heat service area is expected to increase by approximately 3 million sq.m. (equivalent to an increase of approximately 1.5 million GJ of heat) and hence the Group's demand for heat is expected to increase accordingly. Given the Group's primary pipeline network is connected with the Controlling Shareholder Group's Peak-Shaving Boilers and the heat production capacity of No. 2 Cogeneration Plant is already saturated and currently there is no plan to expand its production capacity, in order to ensure the Group's business operations and the quality of its heat supply, the Group would need to purchase heat from these Peak-Shaving Boilers during peak time periods to satisfy its increased demand for heat resulting from the expansion of heat service area.

The terms of the 2021-2023 Heat Procurement Framework Agreement were agreed by the relevant parties on arm's length negotiation.

5. Internal control measures adopted by the Group

The Group has adopted the following internal control measures over the Continuing Connected Transactions:

- (a) the Company has adopted the Connected Transactions Management Regulations (《關連交易管理規定》) which provides that all connected transactions (including the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement) shall comply with the relevant Listing Rules' requirements and the Connected Transactions Management Regulations, including but not limited to (i) the transactions must be conducted on normal commercial terms or better and the terms are no less favourable to the Group than terms available to Independent Third Parties by the Group or terms offered by Independent Third Parties to the Group (as appropriate); and (ii) the transactions are carried out in accordance with the Company's pricing policies and the terms of the 2021-2023 Heat Procurement Framework Agreement. The Group will closely monitor the actual unit price per GJ of heat supplied by the Controlling Shareholder Group by adopting the procedures set out on pages 3 and 4 of this Circular. In addition, the Group will, on a regular basis (and at least once a year before the commencement of heat supply period), obtain information on heat fees from two to four Independent Third Parties and compare such fees with that offered by the Controlling Shareholder Group. In the event where the price offered by Independent Third Parties to the Group are more favourable to the Group than that offered by the Controlling Shareholder Group, the Group will purchase heat from such Independent Third Parties instead given the Group's primary pipeline network is also connected with the network of certain Independent Third Parties. The Directors are of the view that the aforementioned methods and procedures would enable the Company to ensure that the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders;

LETTER FROM THE BOARD

- (b) the Company's planning and management department will closely monitor the total transaction amount to ensure that the Proposed Annual Caps for Heat Procurement in respect of the Continuing Connected Transactions will not be exceeded;
- (c) the Company's planning and management department shall prepare reports containing total transaction amount under the 2021-2023 Heat Procurement Framework Agreement on a monthly basis and submit such reports to the Company's internal control audit department on a quarterly basis;
- (d) based on the reports prepared by the Company's planning and management department, the Company's internal control audit department shall conduct quarterly reviews on the Company's subsidiaries to ensure that (i) the subsidiaries have complied with the Company's Connected Transactions Management Regulations; (ii) the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement are conducted on normal commercial terms or better and the terms are no less favourable to the Group than terms available to Independent Third Parties by the Group or terms offered by Independent Third Parties to the Group (as appropriate); and (iii) the transactions are carried out in accordance with the Company's pricing policies and the terms of the 2021-2023 Heat Procurement Framework Agreement. The Company's internal control audit department shall report on its findings relating to the Continuing Connected Transactions to the Company's management on a quarterly basis;
- (e) the Company's external auditors will review the Continuing Connected Transactions annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded; and
- (f) the independent non-executive Directors will review the Continuing Connected Transactions annually to check and confirm whether such Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in the 2021-2023 Heat Procurement Framework Agreement.

6. Information of the parties involved

(a) The Group

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

LETTER FROM THE BOARD

(b) The Controlling Shareholder Group

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

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

7. Listing Rules implications

Changchun Heating Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company and thus a connected person of the Company. As such, the Continuing Connected Transactions constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As disclosed in the Company's announcements dated 29 October 2020 and 29 March 2021, Yatai Heating and the Company has entered into the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) with Changchun Heating Group and Datang JV, respectively, whereby under these two agreements, Yatai Heating and the Group shall procure heat from Changchun Heating Group and Datang JV, respectively. Pursuant to Chapter 14A of the Listing Rules, the transactions as contemplated under the 2021-2023 Heat Procurement Framework Agreement, the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) shall be aggregated because the counterparties for these three agreements are either Changchun Heating Group or its associate and the nature of the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement, the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) are the same. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement, on a standalone basis, or when aggregated with the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) are, on an annual basis, over 5%, the 2021-2023 Heat Procurement Framework Agreement is subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

GENERAL

A notice convening the EGM at which ordinary an resolution will be proposed for the Independent Shareholders to consider and, if thought fit, approve the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder to be held on Monday, 1 November 2021 at 9:00 a.m. at the Conference Room, 907, Chuncheng Heating, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC is set out on pages EGM-1 to EGM-2 of this circular.

LETTER FROM THE BOARD

A form of proxy for the EGM have been despatched to the Shareholders in accordance with the Listing Rules on 15 October 2021. Whether or not you intend to attend and/or vote at the EGM, you are requested to complete and return the form of proxy in accordance with the instruction printed thereon. If you intend to appoint a proxy to attend the EGM, you are required to complete and return the form of proxy in accordance with the instructions printed thereon. For H Shareholders, the form of proxy should be returned to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, and for holders of Domestic Shares, the form of proxy should be returned to the office of the Board at the head office of the Company in the PRC in person or by post as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

The Independent Board Committee has been established to advise the Independent Shareholders as to the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder. Your attention is drawn to the letter from the Independent Board Committee containing its recommendation as set out on pages 11 to 12 of this circular.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder. Your attention is drawn to the letter from the Independent Financial Adviser containing its advice as set out on pages 13 to 29 of this circular.

Shareholders who have a material interest are required to abstain from voting in respect of the resolution in respect of each of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, Changchun Heating Group held 325,500,000 Domestic Shares, representing approximately 69.75% of the total share capital of the Company and shall abstain from voting on the resolution to be proposed at the EGM in respect of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders will be required to abstain from voting on the relevant resolution approving the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder at the EGM.

LETTER FROM THE BOARD

RECOMMENDATIONS

Pursuant to the Listing Rules and the Articles of Association, Mr. Liu Changchun is considered having direct or indirect material interest in the 2021-2023 Heat Procurement Framework Agreement by virtue of Mr. Liu Changchun being a director, general manager and chairman of the board of Changchun Heating Group. Accordingly, Mr. Liu Changchun has abstained from voting at the relevant Board meeting. Save as disclosed above, none of the Directors attending the Board meeting has a material interest in or is required to abstain from voting on the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder.

The Directors (excluding Mr. Liu Changchun who abstained from voting at the relevant Board meeting as required by the Listing Rules and the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Financial Adviser” in this circular) consider (i) the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement to be in the interests of the Group and the Shareholders as a whole, on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (ii) the terms of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) governing the heat procurement transactions by the Group (other than Yatai Heating) from the Controlling Shareholder Group to be fair and reasonable. Accordingly, the Directors (excluding Mr. Liu Changchun who is required under the Listing Rules to abstain from voting at the relevant Board meeting and the independent non-executive Directors whose view is set out in the section headed “Letter from the Independent Board Committee” in this circular) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully

On behalf of the Board

Jilin Province Chuncheng Heating Company Limited*

Liu Changchun

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Jilin Province Chuncheng Heating Company Limited*

吉林省春城熱力股份有限公司

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

(Stock code: 1853)

15 October 2021

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to its Shareholders dated 15 October 2021 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Details of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder are set out in the letter from the Board contained in the Circular. Giraffe Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from the Independent Financial Adviser contained in the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder and taking into account the information contained in the Circular and the advice of the Independent Financial Adviser, we are of the opinion that the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement are in the ordinary and usual course of business of the Group, and that the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be put forward at the EGM to approve the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder.

Yours faithfully

For and on behalf of
the Independent Board Committee

Mr. Wang Yuguo
*Independent Non-executive
Director*

Mr. Fu Yachen
*Independent Non-executive
Director*

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



Giraffe Capital Limited

15 October 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular issued by the Company dated 15 October 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Changchun Heating Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company and thus a connected person of the Company. As such, the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As disclosed in the Company’s announcements dated 29 October 2020 and 29 March 2021, Yatai Heating and the Company has entered into the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) with Changchun Heating Group and Datang JV, respectively, whereby under these two agreements, Yatai Heating and the Group shall procure heat from Changchun Heating Group and Datang JV, respectively. Pursuant to Chapter 14A of the Listing Rules, the transactions as contemplated under the 2021-2023 Heat Procurement Framework Agreement, the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) shall be aggregated because the counterparties for these three agreements are either Changchun Heating Group or its associate and the nature of the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement, the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) are the same. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the transactions contemplated under the 2021-

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2023 Heat Procurement Framework Agreement, on a standalone basis, or when aggregated with the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) are, on an annual basis, over 5%, the 2021-2023 Heat Procurement Framework Agreement is subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Yuguo, Mr. Fu Yachen and Mr. Poon Pok Man, are formed to advise the Independent Shareholders as to the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of (i) the major and connected transaction in relation to acquisition of 100% equity interests in Yatai Heating and the continuing connected transactions as detailed in circular of the Company dated 25 November 2020; and (ii) the non-exempt continuing connected transactions in respect of the 2021-2023 construction framework agreement as detailed in circular of the Company dated 27 April 2021. Notwithstanding the above engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders considering that (i) our independent roles in the aforesaid engagements (the **"Previous Engagements"**); (ii) the aggregate professional fees paid/to be paid by the Company to us represent an insignificant portion of our revenue during the relevant period; and (iii) we have maintained our independence from the Company during the Previous Engagements, and our independence from the Company has not been compromised because of the Previous Engagements.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the announcement of the Company dated 15 September 2021 in relation to the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder; (ii) the terms of the 2021-2023 Heat Procurement Framework Agreement; (iii) the annual report of the Company for the year ended 31 December 2020 (“**FY2020**”) (the “**Annual Report 2020**”), the interim report of the Company for the six months ended 30 June 2021 (“**1H2021**”) (the “**Interim Report 2021**”); (iv) the information and facts supplied by the Group; (v) the opinions expressed by and the representations of the Directors and management of the Group; and (vi) certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM.

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the 2021-2023 Heat Procurement Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

1.1 Business of the Group

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

According to the Interim Report 2021, the overall profitability and energy efficiency utilization rate have improved, the level of heat supply and production management and heat supply customer services have continued to increase. As at 30 June 2021, the Group's heat service area was approximately 60.2 million sq.m., representing an increase of approximately 40.88% from approximately 42.7 million sq.m. as at 30 June 2020. As at 30 June 2021, the Group had 505,788 heat supply users, representing an increase of approximately 45.1% from 348,570 users as at 30 June 2020.

According to the Interim Report 2021, the Group's construction, maintenance and design services cover the peripheral services business of the heat supply industry chain. The main services include engineering construction, engineering maintenance, design services and electrical instrument maintenance. These services mainly cover northeast China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2 Financial performance of the Group

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2020 and the Interim Report 2021:

	For the year ended 31 December		For the six months ended 30 June	
	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
<i>Heat supply segment</i>				
– Provision and distribution of heat	894,540	1,347,567	515,555	791,968
– Pipeline connection fee	54,233	65,560	27,707	42,224
– Heat transmission	11,951	14,705	12,296	9,202
	<u>960,724</u>	<u>1,427,832</u>	<u>555,558</u>	<u>843,394</u>
<i>Construction, maintenance and design services segment:</i>				
– Engineering construction	366,412	247,253	23,169	12,230
– Engineering maintenance	220,774	192,575	46,642	15,363
– Design service	9,743	17,781	3,448	5,127
– Others	3,762	11,507	779	5,711
	<u>600,691</u>	<u>469,117</u>	<u>74,038</u>	<u>38,431</u>
	1,561,415	1,896,949	629,596	881,825
Gross profit (Note)	287,169	301,470	153,036	209,965
<i>Gross profit margin</i>	<i>18.4%</i>	<i>15.9%</i>	<i>24.3%</i>	<i>23.8%</i>
Net profit attributable to owners of the parent company	133,971	165,217	89,575	117,452

Note: Gross profit for the years ended 31 December 2019 and 2020 was extracted from the Annual Report 2020; while gross profit for the six months ended 30 June 2020 and 2021 was extracted from the Interim Report 2021.

For the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, the Group generated revenue from two operating segments, being (i) heat supply services; and (ii) construction, maintenance and design services. Revenue generated from heat supply segment includes fees for provision and distribution of heat, entrance fees charged for connections to the Group's heat distribution network and heat transmission fees charged to other heat service providers. Revenue generated from construction, maintenance and design services includes engineering construction, engineering maintenance, design services and electrical instrument maintenance and repair.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison of financial performance between the six months ended 30 June 2020 and 2021

Based on the Interim Report 2021, the Group's revenue increased from approximately RMB629.6 million for the six months ended 30 June 2020 ("**1H2020**") to approximately RMB881.8 million in 1H2021, which is the combined effect of the increase in revenue generated from the heat supply business and the decrease in revenue generated from the construction, maintenance and design services business. The increase in revenue generated from the heat supply business was primarily due to the consolidation of Xixing Energy and Yatai Heating by the Group since the completion of the acquisitions on 11 June 2020 and 31 December 2020, respectively. The decrease in revenue generated from the construction, maintenance and design services business was mainly attributable to the decrease in revenue generated from engineering construction and engineering maintenance mainly due to the decrease in number of projects undertaken in 1H2021.

The Group's gross profit increased from approximately RMB153.0 million in 1H2020 to approximately RMB210.0 million in 1H2021, which was in line with the increase in the Group's revenue. The Group's gross profit margin remained relatively stable at approximately 24.3% and 23.8% for 1H2020 and 1H2021, respectively.

The Group's profit attributable to owners of the Company increased from approximately RMB89.6 million in 1H2020 to approximately RMB117.5 million in 1H2021, which was in line with the increase in gross profit contributed by the Group's heat supply business.

Comparison of financial performance between the year ended 31 December 2019 and 2020

Based on the Annual Report 2020, the Group's revenue increased from approximately RMB1,561.4 million for the year ended 31 December 2019 ("**FY2019**") to approximately RMB1,896.9 million in FY2020, which was the combined effect of the increase in revenue generated from the heat supply business and the decrease in revenue generated from the construction, maintenance and design services business. The increase in revenue generated from the heat supply business was primarily due to (i) the completion of the acquisition of Xixing Energy and Yatai Heating during the year; and (ii) the increase in the Group's heat service area from approximately 39.5 million sq.m. as at 31 December 2019 to approximately 60.2 million sq.m as at 31 December 2020. The decrease in revenue generated from the construction, maintenance and design services business was mainly attributable to (i) the decrease in revenue generated from engineering construction mainly due to the completion of certain projects in FY2020; and (ii) the decrease in revenue generated from engineering maintenance mainly due to the decrease in external engineering work undertaken this year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's gross profit increased from approximately RMB287.2 million in FY2019 to approximately RMB301.5 million in FY2020, which was in line with the increase in the Group's revenue. The Group's gross profit margin decreased from approximately 18.4% in FY2019 to approximately 15.9% in FY2020, which was mainly due to the increase in cost of sales for heat supply resulting from the increase in heat procurement cost and labor cost.

The Group's net profit attributable to owners of the parent company increased from approximately RMB134.0 million in FY2019 to approximately RMB165.2 million in FY2020, mainly due to the increase in gross profit contributed by the Group's heat supply business.

1.3 Business outlook

According to the National Bureau of Statistics of China (the "NBS") and the Statistic Bureau of Jilin* (吉林省統計局), the urbanization rates of the PRC and Jilin Province increased from approximately 54.8% and 54.8% in 2014 to approximately 63.9% and 62.6% in 2020, respectively. The number of urban residents of Jilin Province reached approximately 15.1 million in 2020. The rising urbanization rates in the PRC and Jilin Province lead to increasing demand for heating service and related urban municipal infrastructure, which is the fundamental driver of the development of heat supply and related construction, maintenance and design industry.

Pursuant to the National 13th Five-Year Plan for Urban Municipal Infrastructure Construction* (《全國城市市政基礎設施規劃建設“十三五”規劃》) published in 2017 by National Development and Reform Commission* (國家發展和改革委員會) and Ministry of Housing and Urban-Rural Development* (住房和城鄉建設部), the PRC government proposed to improve the heating quality and the municipal infrastructure. These favorable policies are expected to stimulate the demand for the high-quality heating infrastructure and drive the growth of the heat supply industry. According to the NBS, the length of heating pipelines construction and area of centralised heating of Jilin Province of the PRC has increased from approximately 17,309 k.m. to 29,971 k.m. and from approximately 450 million sq.m. to 646 million sq.m., respectively from 2014 to 2019.

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

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information of the Controlling Shareholder Group

As disclosed in the Letter from the Board, Changchun Heating Group is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by Changchun SASAC. Changchun Heating Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company.

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

3. Principal terms of the 2021-2023 Heat Procurement Framework Agreement

Details of the 2021-2023 Heat Procurement Framework Agreement are set out in the Letter from the Board. The principal terms and conditions of the 2021-2023 Heat Procurement Framework Agreement are as follows:

3.1 *Date*

15 September 2021

3.2 *Parties*

- (i) The Company (for itself and on behalf of its subsidiaries other than Yatai Heating), as purchaser
- (ii) Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group), as supplier

3.3 *Subject matter*

The Group (other than Yatai Heating) shall procure heat from the Controlling Shareholder Group in accordance with the requirements prescribed by the Group (other than Yatai Heating).

The Group (other than Yatai Heating) will enter into separate contracts with the Controlling Shareholder Group in respect of the Group's (other than Yatai Heating's) orders for heat.

For the avoidance of doubt, Yatai Heating's procurement of heat from the Controlling Shareholder Group shall be governed by the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating).

3.4 *Term*

From the date when the resolution for approving the 2021-2023 Heat Procurement Framework Agreement is approved at the EGM to 31 December 2023 (both days inclusive)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.5 Pricing terms and pricing policy:

The parties agree that the intended unit price per GJ to be RMB62.08, and that the actual heat service fee payable by the Group (other than Yatai Heating) to the Controlling Shareholder Group shall be determined through fair negotiation between the parties as to be set out in the relevant separate contracts and on terms no less favourable than those offered to the Group (other than Yatai Heating) by Independent Third Parties.

In determining the actual heat fee per GJ payable by the Group (other than Yatai Heating), the parties shall make references to the relevant historical prices for heat supply and collect industry information on market price and profitability from various sources, such as state-prescribed price, state-recommended price and other similar heat service providers, and determine the heat fee based on average market profit rate or on cost-plus basis in order to ensure the fairness and reasonableness of the rate. For the avoidance of doubt, the actual heat fee per GJ payable by the Group (other than Yatai Heating) to the Controlling Shareholder Group shall be the lower of (i) the intended unit heat price per GJ of RMB62.08; and (ii) the heat fee per GJ calculated using the cost-plus approach as described below. Furthermore, it is the intention of the parties that the actual unit price shall not be higher than RMB62.08 per GJ.

When implementing the pricing policy mentioned above, the parties to the 2021-2023 Heat Procurement Framework Agreement mainly adopt the cost-plus basis to determine the unit price. The costs of Changchun Heat Group to be considered mainly comprise price of coal, water, electricity, natural gas, fixed asset depreciation, wages and repairs etc..

The planning and management department of the Group is responsible to monitor these costs.

Cost of coal

Cost of coal is the largest component of the heat production cost of coal-fired boilers. From time to time, at least quarterly, staff from the planning and management department will communicate with the government, other heat service providers and coal suppliers to collect the latest information regarding change in coal price which may arise from market fluctuation. In addition, the planning and management department also refers to Bohai-Rim Steam-Coal Price Index* (環渤海動力煤價格指數) as published from time to time by China National Coal Association* (中國煤炭工業協會) (<http://www.coalchina.org.cn/index.php>) for market price of coal.

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Water and electricity prices

As water and electricity prices are set by the government, the planning and management department keeps track of the changes in these prices as from time to time announced by the government.

We further understood from the management of the Company that the data collected would be communicated to the head of the planning and management department in order to update the internal assessment in relation to the pricing policy and ensure the fairness and reasonableness of the heat price.

Profit margin

A margin at a rate of approximately 10% will be applied in determining the unit price. The Group will gather interenterprise unit prices of heat service providers in the vicinity of the regions to which the Group supplies heat as reference. However, given that there are no state-prescribed or state-recommended prices for these inter-enterprise unit prices and that these unit prices vary depending on factors such as the quality of the providers' production process which affects their heat production efficiency, the Directors are of the view that although the unit prices of other heat service providers may be used as reference, they may not have sufficient level of reliance as direct comparable to the unit prices determined under the 2021-2023 Heat Procurement Framework Agreement.

Determination of the intended unit price of RMB62.08 per GJ

By adopting the aforementioned methods and procedures and having taking into account the average costs of coal (approximately RMB626.5/tonne), electricity (approximately RMB0.7/kWh electricity generated), water (approximately RMB6.64/tonne), natural gas, fixed asset depreciation, wages and repairs over the past 12-month period and a margin at a rate of approximately 10%, the parties determined that the intended unit price per GJ to be RMB62.08, which is intended to be the highest unit price to be charged by the Controlling Shareholder Group under the 2021-2023 Heat Procurement Framework Agreement.

4. Reasons for and benefits of entering into the 2021-2023 Heat Procurement Framework Agreement

While the Group's existing heat production capacity is sufficient to supply heat to its heat service area during non-peak periods, as disclosed in the Letter from the Board, with effect from the 2021-2022 heat supply period, the Group's heat service area is expected to increase by approximately 3 million sq.m. (equivalent to an increase of approximately 1.5 million GJ of heat) and hence the Group's demand for heat is expected to increase accordingly.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the Group's primary pipeline network is connected with the Controlling Shareholder Group's Peak-Shaving Boilers and the heat production capacity of No. 2 Cogeneration Plant is already saturated and currently there is no plan to expand its production capacity, in order to ensure the Group's business operations and the quality of its heat supply, the Group would need to purchase heat from these Peak-Shaving Boilers during peak time periods to satisfy its increased demand for heat resulting from the expansion of heat service area.

As stated in the Letter from the Board, the terms of the 2021-2023 Heat Procurement Framework Agreement were agreed by the relevant parties on arm's length negotiation.

In assessing whether the pricing policy and the terms under the 2021-2023 Heat Procurement Framework Agreement is fair and reasonable, we have, among others, (i) discussed with the management of the Company and noted that the intended unit price is determined by reference to, among other things, (a) the unit price per GJ of RMB56 for heat procurement from Changchun Heating Group by Yatai Heating in 2021, which was determined with reference to, among other things, the costs incurred by the heat suppliers (such as the price of natural gas, electricity, water, fixed asset depreciation, repairs, wages), the profitability required by the heat suppliers and the relevant tax; and (b) the expected increase in cost of raw materials of 15% due to the increase in price of coal; (ii) reviewed the calculation spreadsheet of unit price of heat produced by Changchun Heating Group to be supplied to Yatai Heating and noted that the unit cost was approximately RMB50.8 per GJ by the time the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) was entered into (i.e. in October 2020), and a profit margin of approximately 10% is expected by the Changchun Heating Group, resulting in the unit price of RMB56 per GJ; (iii) reviewed the Interim Measures for the Price Control of Urban Heat Supply* (城市供熱價格管理暫行辦法) published by National Development and Reform Commission* (國家發展和改革委員會) and noted the state-prescribed heating price is also determined by similar factors such as cost of fuel, electricity, water, fixed asset depreciation, repairs and wages. Therefore, we concur with the Directors' view that such pricing principle is justifiable; and (iii) performed public search on the expected trend of price of coal, one of the major raw materials for the supply of heat, and noted that, by reference to the Bohai-Rim Steam-Coal Price Index which represents a gauge of coal prices in major ports of north China, the price of coal in China increased from approximately RMB595.5 per tonne in January 2021 to approximately RMB680.0 per tonne in August 2021, representing an increase of approximately 14.2%, which was mainly due to the shortage of supply from overseas due to the outbreak of coronavirus. Thus, we concur with the Directors' view that the adoption of the intended unit price of RMB62.08 per GJ, which the increase in coal prices in 2021 has already been taken into account, instead of RMB56 per GJ is fair and reasonable.

Furthermore, we have (i) discussed with the management of the Company and understood that the intended unit price per GJ is used for determining the Proposed Annual Caps for Heat Procurement which the Directors consider to be feasible and reasonable after considering the cost of heat produced by Changchun Heating Group to be supplied to Yatai Heating, the increase in raw material price and other factors as discussed above. The determination of intended unit price per GJ of RMB62.08 has already taken into account factors available up to the date of 2021-2023 Heat Procurement Framework Agreement and would be subject to further negotiation with reference to the market information available at the time when individual contracts are entered into. Regardless of whether the unit price would be further negotiated, the management of the Company would compare the unit price against the prices offered by Independent Third Parties to ensure the then unit price is no less favourable than those offered by Independent Third Parties; and (ii) discussed with the management of the Company and noted that the

* For identification purpose only

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planning and management department would continue to monitor the costs of raw materials including but not limited to communicating with the government, other heat service suppliers and coal suppliers to collect the latest information regarding change in coal price which may arise from market fluctuation, and keeping track of the changes in the water and electricity prices as from time to time announced by the government so as to ensure the fairness and reasonableness of the heat supply unit price. On the basis that such internal control procedures are effectively implemented by the Group and that the then unit price is no less favourable than those offered by Independent Third Parties, we are of the view that unit price per GJ is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

To assess the reasonableness and fairness of the profit margin of 10% charged by Changchun Heating Group under the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating), we attempted to identify publicly listed companies that are engaged in heat supply business with over 50% of revenue for the year ended 31 December 2020 being generated from such service. To the best of our knowledge and as far as we are aware, an exhaustive list of five comparable companies (“**Comparable Companies**”) has been identified based on the aforesaid selection criteria on our best-efforts basis, which we consider to be fair and representative samples to provide us with the recent relevant industry information on the profit margin of heat supply service. Set out below are the details on the Comparable Companies:

Company name (Stock code)	Principal business	Gross profit/ (loss) margin (Note)
Beijing Huayuanyitong Thermal Technology Co. Ltd (002893.SZ)	Principally engaged in heat supply service and Energy saving technology service	13.4%
Luenmei Quantum Co., Ltd (600167.SH)	Principally engaged in heat and steam supply service	40.0%
Shenyang Huitian Thermal Power Co., Ltd (000692.SZ)	Principally engaged in heat supply service	(7.9%)
Dalian Thermal Power Co., Ltd. (600719.SH)	Principally engaged in heat supply service and power supply service	22.5%
Langfang Development Co.,Ltd. (600149.SH)	Principally engaged in heat supply service	31.1%
Average:		19.8%

Note: Gross profit/(loss) margin represents gross profit/(loss) margin for the provision of heat supply service of the Comparable Companies, which is extracted from their respective latest annual reports for the most recent financial year.

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As illustrated in the table above, the average gross profit margin of such Comparable Companies for the year ended 31 December 2020 is approximately 19.8%, which is higher than the profit margin of 10% charged by Changchun Heating Group. Therefore, we concur with the Directors' view that the profit margin of 10% is in the interest of the Company and its Shareholders as a whole.

Based on the above, we concur with the Directors' view that (i) the principle of pricing policy in determining the service fee payable for the heat supplied by the Changchun Heating Group is justifiable, fair and reasonable; (ii) the terms of the Heat Procurement Framework Agreement are on normal commercial terms and are fair and reasonable; and (iii) the entering into of the 2021-2023 Heat Procurement Framework Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

5. Historical transaction amounts and the proposed annual caps under the 2021-2023 Heat Procurement Framework Agreement

As disclosed in the Letter from the Board, in arriving at the Proposed Annual Caps for Heat Procurement, the Directors considered factors including (i) the expected supply of heat generated from the Controlling Shareholder Group's Peak-Shaving Boilers for each of the three years ending 31 December 2023; and (ii) the intended unit price per GJ of RMB62.08.

Pursuant to the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating), Yatai Heating procured heat in an aggregate amount of approximately RMB36.37 million from the Controlling Shareholder Group between 1 January 2021 and the Latest Practicable Date. Save for the aforementioned, the Group has not procured any heat from the Controlling Shareholder Group since the Company's incorporation and up to the Latest Practicable Date.

The table below sets out the Proposed Annual Caps for Heat Procurement in respect of the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement for the three years ending 31 December 2023:

For the year ending 31 December		
2021	2022	2023
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
24,832	93,120	93,120

In assessing the fairness and reasonableness of the Proposed Annual Caps for Heat Procurement, we have discussed with the management of the Company and understood that (i) the heat supply period in Jilin Province generally starts in October in a year and ends in April in the following year, while the peak season would generally be January to March due to the cold weather. Therefore, the number of months in which the Group would procure heat from the Controlling Shareholder Group would be approximately two, seven and seven for the year ending 31 December 2021, 2022 and 2023, respectively; (ii) the Group's heat service area is expected to increase by approximately 3 million sq.m. as the Directors considered that there would be construction and development of residential areas and public infrastructure such as hospital within the Group's heat service area in 2021 and 2022, hence there would be an additional demand for heat by the Group of approximately 0.4 million GJ, 1.5 million GJ and 1.5 million

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GJ for each of the three years ending 31 December 2023, respectively, as the Group's heat production capacity of No. 2 Cogeneration Plant is already saturated; and (iii) the intended unit price would be RMB62.08 per GJ, which we are of the view that the principle of pricing policy is justifiable as discussed in section headed "4. Reasons for and benefits of entering into the 2021-2023 Heat Procurement Framework Agreement". Based on the above, the Proposed Annual Caps for Heat Procurement would be approximately RMB24.8 million, RMB93.1 million and RMB93.1 million for the years ending 31 December 2021, 2022 and 2023, respectively.

To further assess the reasonableness of the expected increase in the heat service area of approximately 3.0 million sq.m., we have reviewed and noted from the prospectus of the Company dated 27 September 2019 and the Annual Report 2020 that, the Group's heat service area increased from approximately 33.2 million sq.m. as at 31 December 2016 to approximately 40.3 million sq.m. (excluding Xixing Energy, the interest of which was first acquired in January 2018 and Yatai Heating, the interest of which was acquired in December 2020) as at 31 December 2020, representing a compound annual growth rate of approximately 5.0% (the "**Historical CAGR**"). Assuming that Xixing Energy was part of the Group since 31 December 2016, the Group's heat service area increased from approximately 35.8 million sq.m. as at 31 December 2016 to approximately 43.8 million sq.m. as at 31 December 2020, representing a compound annual growth rate of approximately 5.2% (the "**Pro Forma Historical CAGR**"). The increase of approximately 3.0 million sq.m. represents an increase of approximately 6.8% from the heat service area of approximately 43.7 million sq.m. as at 31 December 2020 (excluding Yatai Heating), it is comparable to the Pro Forma Historical CAGR, and we consider that the expected increase is justifiable.

In addition, according to the Annual Report 2020, the ratio of volume of heat procured to the total heat service area for the years ended 31 December 2019 and 2020 was approximately 0.5GJ per sq.m. of heat service area. We further understood from the management of the Company that the new heat service area is expected to be situated in Changchun City and in proximity with the existing heat service area of the Group, and thus it is expected that the new heat service area would be subject to similar factors such as population density, demographic factors and climate. Therefore, we consider that the historical ratio of volume of heat procured to the total heat service area would be a meaningful reference to assess the fairness and reasonableness of the expected heat supply volume of the new heat service area and thus, the increase of approximately 1.5 million GJ of heat is reasonable based on the expected increase in heat service area of approximately 3.0 million sq.m..

Based on the above, we concur with the Directors' view that the Proposed Annual Caps for Heat Procurement in respect of the transactions contemplated under the Heat Procurement Framework Agreement are fair and reasonable.

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6. Internal control measures

As stated in the Letter from the Board, the Group has adopted the following internal control measures over the Continuing Connected Transactions:

- (i) the Company has adopted the Connected Transactions Management Regulations (《關連交易管理規定》) which provides that all connected transactions (including the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement) shall comply with the relevant Listing Rules' requirements and the Connected Transactions Management Regulations, including but not limited to (i) the transactions must be conducted on normal commercial terms or better and the terms are no less favourable to the Group than terms available to Independent Third Parties by the Group or terms offered by Independent Third Parties to the Group (as appropriate); and (ii) the transactions are carried out in accordance with the Company's pricing policies and the terms of the 2021-2023 Heat Procurement Framework Agreement. The Group will closely monitor the actual unit price per GJ of heat supplied by the Controlling Shareholder Group. In addition, the Group will, on a regular basis (and at least once a year before the commencement of heat supply period), obtain information on heat fees from two to four Independent Third Parties and compare such fees with that offered by the Controlling Shareholder Group. In the event where the price offered by Independent Third Parties to the Group are more favourable to the Group than that offered by the Controlling Shareholder Group, the Group will purchase heat from such Independent Third Parties instead given the Group's primary pipeline network is also connected with the network of certain Independent Third Parties;
- (ii) the Company's planning and management department of the Group will closely monitor the total transaction amount to ensure that the Proposed Annual Caps in respect of the Continuing Connected Transactions will not be exceeded;
- (iii) the Company's planning and management department shall prepare reports containing total transaction amount under the 2021-2023 Heat Procurement Framework Agreement on a monthly basis and submit such reports to the Company's internal control audit department on a quarterly basis;
- (iv) based on the reports prepared by the Company's planning and management department, the Company's internal control audit department shall conduct quarterly reviews on the Company's subsidiaries to ensure that (i) the subsidiaries have complied with the Company's Connected Transactions Management Regulations; (ii) the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement are conducted on normal commercial terms or better and the terms are no less favourable to the Group than terms available to Independent Third Parties by the Group or terms offered by Independent Third Parties to the Group (as appropriate); and (iii) the transactions are carried out in accordance with the Company's pricing policies and the terms of the 2021-2023 Heat Procurement Framework Agreement. The Company's internal control audit department shall report on its findings relating to the Continuing Connected Transactions to the Company's management on a quarterly basis;

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- (v) the Company's external auditors will review the Continuing Connected Transactions annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded; and
- (vi) the independent non-executive Directors will review the Continuing Connected Transactions annually to check and confirm whether such Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in the 2021-2023 Heat Procurement Framework Agreement.

In assessing the effectiveness of the Company's internal control in place, we have reviewed the following:

- (i) the Connected Transactions Management Regulations (《關連交易管理規定》) adopted by the Company and samples of documents on a random basis, including (a) six monthly reports prepared by the planning and management department submitted to the Company's internal control audit department; and (b) two quarterly reports prepared by the internal control department, and noted that the required internal control procedures were properly followed. Considering that (i) the monthly reports were obtained on a random basis and spread across each of the three quarters in 2021; and (ii) both the sample monthly reports and quarterly reports represent the majority of the reports available up to the Latest Practicable Date, we consider the number of sample to be sufficient, fair and representative;
- (ii) the board minutes of the Company and noted the independent non-executive Directors had reviewed the historical continuing connected transactions in relation to the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV), and confirmed such continuing connected transactions were (a) in the ordinary and usual course of business of the Group; (b) on normal or better commercial terms which are not less favourable to the Group than terms offered by Independent Third Parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole for the six months ended 31 June 2021; and
- (iii) the Company's internal assessment on the fairness and reasonableness of the unit price per GJ of heat procured in relation to the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) in which price prescribed by the government, or quotations on heat fee obtained from Independent Third Parties where there is no state-prescribed price, were compared against the heat procurement fees offered to the Group by Changchun Heating Group and Datang JV, respectively, and noted that the heat procurement fees offered to the Group by Changchun Heating Group and Datang JV were no less favourable to the Group than terms prescribed by the government or offered by Independent Third Parties.

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Having considered that (i) the Company has adopted the Connected Transactions Management Regulations (《關連交易管理規定》) which provides that all connected transactions (including the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement) shall comply with the relevant Listing Rules' requirements and the Connected Transactions Management Regulations; (ii) the aforementioned internal controls procedures in relation to the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2021-2023 Heat Procurement Framework Agreement (Datang JV) were effectively implemented; (iii) a monitoring system will be in place with the planning and management department of the Group ensuring that the annual caps are not exceeded from time to time; (iv) the reports containing total transaction amount under the 2021-2023 Heat Procurement Framework Agreement will be submitted to the management of the Company on a quarterly basis; and (v) the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement will be annually reviewed by the independent non-executive Directors and the external auditors of the Company, we are of the view that the internal control measures are adequate and effective in ensuring the transactions contemplated under the 2021-2023 Heat Procurement Framework Agreement will be entered into on normal commercial terms and there is an effective system in place to monitor the annual caps.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) the 2021-2023 Heat Procurement Framework Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving the 2021-2023 Heat Procurement Framework Agreement (together with the Proposed Annual Caps for Heat Procurement) and the transactions contemplated thereunder at the EGM.

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

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 13 years of experience in the field of corporate finance advisory.

1. RESPONSIBILITY STATEMENT

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

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

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

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than the Directors, Supervisors or chief executives of the Company, had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of shareholder	Class of Shares	Nature of interest	Number of Shares/ underlying Shares held (share) ^(Note 4)	Percentage of relevant class of shares of capital ^(Note 5) (%)	Percentage of total share capital ^(Note 6) (%)
Changchun Heating Group	Domestic Shares	Beneficial owner	325,500,000(L)	93.00	69.75
Changchun State-owned Capital Investment Operation (Group) Co., Ltd.	Domestic Shares	Beneficial owner	24,500,000(L)	7.00	5.25
China Foreign Economic and Trade Trust Co., Ltd. ^(Note 1)	H Shares	Trustee	29,202,500(L)	25.02	6.26
Cititrust Private Trust (Cayman) Limited ^(Note 2)	H Shares	Interest of a controlled corporation	26,750,000(L)	22.92	5.73
Fantasy Races Limited ^(Note 2)	H Shares	Interest of a controlled corporation	26,750,000(L)	22.92	5.73
Harvest Well Holdings Limited ^(Note 2)	H Shares	Interest of a controlled corporation	26,750,000(L)	22.92	5.73
Ming Fai International Limited ^(Note 2)	H Shares	Interest of a controlled corporation	26,750,000(L)	22.92	5.73
Joywise Holdings Limited ^(Note 2)	H Shares	Interest of a controlled corporation	26,750,000(L)	22.92	5.73
Sunshine 100 China Holdings Ltd. ^(Note 2)	H Shares	Interest of a controlled corporation	26,750,000(L)	22.92	5.73
SDIC Taikang Trust Co., Ltd. ^(Note 3)	H Shares	Trustee	17,510,000(L)	15.00	3.75

Notes:

1. China Foreign Economic and Trade Trust Co., Ltd. is the trustee of SCBCN-Foreign Economy and Trade Trust Co., Ltd-Fotic Wuxingbaichuan No. 37 Unitrust.
2. Sunshine 100 China Holdings Ltd. Limited is interested in 14,700,000 H Shares. Sunshine 100 China Holdings Ltd is owned as to 66.34% by Joywise Holdings Limited; Joywise Holdings Limited are owned as to 60% and 40% by Harvest Well Holdings Limited and Ming Fai International Limited, respectively; each of Harvest Well Holdings Limited and Ming Fai International Limited is owned as to 72.4% by Fantasy Races Limited; and Fantasy Races Limited is owned as to 100% by Cititrust Private Trust (Cayman) Limited. As such, by virtue of the SFO, Joywise Holdings Limited, Harvest Well Holdings Limited, Ming Fai International Limited and Fantasy Races Limited are deemed to be interested in the H Shares held by Sunshine 100 China Holdings Ltd.
3. SDIC Taikang Trust Co., Ltd. is the trustee of SDIC Taikang Trust – Ruijin No. 8 QDII Single Fund Trust.
4. The letter “L” denotes the relevant person’s long position in such Shares.
5. Based on 350,000,000 Domestic Shares or 116,700,000 H Shares of the Company as at the Latest Practicable Date.
6. Based on the total issued share capital of the Company of 466,700,000 Shares as at the Latest Practicable Date.

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

3. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or the Supervisors had entered into a service contract with any member of the Group which is not determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation.

4. QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
Giraffe Capital Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

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

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

As at the Latest Practicable Date, the above expert did not have any interest, direct or indirect, in any assets which have been, since 31 December 2020, being the date to which the latest published audited combined financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

5. COMPETING INTERESTS

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

Name of Director	Entity whose business is considered to compete or likely to compete with the businesses of the Group	Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Mr. Liu Changchun	Changchun Heating Group	Heat supply	Director, general manager and chairman of the board
Mr. Shi Mingjun	Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司)	Heat supply, construction, maintenance and distribution service	Non-executive director

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

6. NO MATERIAL ADVERSE CHANGE

So far as is known to the Directors, as at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited combined financial statements of the Group were made up.

7. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

So far as is known to the Directors, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive had any interest, direct or indirect, in any assets which have been, since 31 December 2020, being the date to which the latest published audited combined financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

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

8. GENERAL

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

9. DOCUMENTS ON DISPLAY

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

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 11 to 12 of this circular;
- (b) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 13 to 29 of this circular;
- (c) the written consent referred to in the section headed “4. Qualification and Consent of Expert” in this appendix;
- (d) the 2021-2023 Heat Procurement Framework Agreement;
- (e) the 2021-2023 Heat Procurement Framework Agreement (Datang JV);
- (f) the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating); and
- (g) this circular.

NOTICE OF EGM



Jilin Province Chun Cheng Heating Company Limited*

吉林省春城熱力股份有限公司

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

(Stock code: 1853)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Jilin Province Chun Cheng Heating Company Limited* (the “**Company**”) will be held at the Conference Room 907, Chun Cheng Heating, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC on Monday, 1 November 2021 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

1. To consider and approve the 2021-2023 Heat Procurement Framework Agreement entered into between the Company (for itself and on behalf of its subsidiaries other than Yatai Heating) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group), the continuing connected transactions contemplated thereunder and the Proposed Annual Caps for Heat Procurement.

By order of the board of directors

Jilin Province Chun Cheng Heating Company Limited*

Liu Changchun

Chairman

Jilin, the PRC, 15 October 2021

Notes:

1. The register of members of the Company will be closed from Wednesday, 27 October 2021 to Monday, 1 November 2021 (both days inclusive), during which period no transfer of shares of the Company can be registered. Shareholders who wish to attend and vote at the EGM must lodge all transfer documents accompanied by the relevant share certificates to (in case of H Shareholders) the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (in case of Domestic Shareholders) the head office of the Company in the PRC at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC no later than 4:30 p.m. on Tuesday, 26 October 2021.
2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalfs. A proxy needs not to be a Shareholder.

* For identification purpose only

NOTICE OF EGM

3. In order to be valid, the proxy form of Shareholders for the EGM must be deposited by hand or by post to (in case of H Shareholders) the H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (in case of Domestic Shareholders) the head office of the Company in the PRC at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC not less than 24 hours before the time for holding the EGM or any adjournment thereof for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarial copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings thereof should they so wish.
4. Shareholders or their proxies shall provide their identification documents when attending the EGM. In case of a corporate Shareholder, its proxy or other person authorized to attend the meeting with a resolution passed by the board of directors or other decision-making authorities of which the Shareholder is a member, should provide a copy of such resolution.
5. In case of joint holders, the vote of the senior joint Shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Shareholder(s) and for this purpose seniority will be determined by the order in which the names stand on the register of members of the Company in respect of the joint shareholding.
6. The on-site EGM is expected to take less than half a day. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
7. The address of the head office of the Company in the PRC is No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nangan District, Changchun City, Jilin Province, the PRC.
8. Taking into account of the recent development of the epidemic caused by novel coronavirus pneumonia (COVID-19), the Company will implement the following prevention and control measures at the EGM against the epidemic to protect the Shareholders from the risk of infection:
 - (i) compulsory body temperature check will be conducted for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue;
 - (ii) every Shareholder or proxy is required to wear surgical face mask throughout the meeting; and
 - (iii) no refreshment will be served.

Furthermore, the Company wishes to advise the Shareholders, particularly Shareholders who are subject to quarantine in relation to novel coronavirus pneumonia, that they may appoint any person or the chairman of the EGM as a proxy to vote on the resolution, instead of attending the EGM in person.