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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS FOR THE 2021 RESULTS ANNOUNCEMENT

- The revenue for the year ended 31 December 2021 was RMB1,649.60 million, representing a decrease of 13.04% over the comparative figure of 2020
- The profit before tax for the year ended 31 December 2021 was RMB167.08 million, representing a decrease of 19.53% over the comparative figure of 2020
- The net profit attributable to equity holders of the Company for the year ended 31 December 2021 was RMB122.76 million, representing a decrease of 28.00% over the comparative figure of 2020
- Earnings per Share for the year ended 31 December 2021 was RMB0.26, a decrease of RMB0.11 over the comparative figure of 2020
- The Board proposed the distribution of a final dividend of RMB0.115 per Share (tax inclusive) for the year ended 31 December 2021.

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020. The results were prepared in accordance with the disclosure requirements under the ASBEs.

FINANCIAL INFORMATION

(All amounts in RMB unless otherwise stated)

COMBINED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31 December 2021	31 December 2020 (Restated)
CURRENT ASSETS:			
Monetary fund		664,306,698.15	732,404,368.33
Financial assets measured at fair value through profit or loss		—	—
Held-for-trading financial assets		—	50,069,375.00
Derivative financial assets		—	—
Bills receivable		—	222,510.02
Trade receivables	6	223,060,999.01	259,473,894.16
Trade receivables financing		—	125,254,548.10
Prepayments		508,937,790.32	449,625,930.69
Other receivables		6,941,347.08	1,415,844.56
Inventories		30,384,096.14	11,840,378.51
Contract assets	7	133,161,280.32	232,321,629.47
Assets held for sale		—	—
Non-current assets due within one year		—	—
Other current assets		<u>17,232,911.07</u>	<u>4,546,311.94</u>
TOTAL CURRENT ASSETS		<u>1,584,025,122.09</u>	<u>1,867,174,790.78</u>

ASSETS	31 December 2021	31 December 2020 (Restated)
NON-CURRENT ASSETS:		
Available-for-sale financial assets	—	—
Held-to maturity investments	—	—
Debt investments	—	—
Other debt investments	—	—
Long-term receivables	—	—
Long-term equity investments	—	—
Other equity instrument investments	—	—
Other non-current financial assets	—	—
Investment properties	7,513,710.41	7,870,252.37
Fixed assets	1,045,874,487.44	1,093,225,431.69
Construction-in-progress	14,321,966.26	34,512,027.00
Biological assets	—	—
Oil and gas assets	—	—
Right-of-use assets	1,650,591.05	2,865,635.17
Intangible assets	14,962,280.55	3,963,386.97
Development costs	—	—
Goodwill	167,112,355.37	167,112,355.37
Long-term deferred expenditures	1,356,755.20	6,072,387.29
Deferred income tax assets	57,623,801.03	44,308,790.24
Other non-current assets	—	—
TOTAL NON-CURRENT ASSETS	<u>1,310,415,947.31</u>	<u>1,359,930,266.10</u>
TOTAL ASSETS	<u>2,894,441,069.40</u>	<u>3,227,105,056.88</u>

LIABILITIES AND EQUITY	<i>Notes</i>	31 December 2021	31 December 2020 (Restated)
CURRENT LIABILITIES:			
Short-term borrowings		—	—
Financial liabilities measured at fair value through profit or loss		—	—
Held-for-trading financial liabilities		—	—
Derivative financial liabilities		—	—
Bills payable		—	—
Trade payables	8	232,178,489.39	364,528,927.01
Advances		100,000.00	26,666.67
Contract liabilities	9	1,411,336,830.54	1,452,997,663.41
Salaries payable		116,033,845.98	175,557,524.87
Tax payable		43,412,130.75	75,135,340.00
Other payables		17,429,924.15	151,527,222.02
Liabilities held for sale		—	—
Non-current liabilities due within one year		975,251.76	1,209,451.00
Other current liabilities		<u>1,760.92</u>	<u>1,414,928.68</u>
TOTAL CURRENT LIABILITIES		<u>1,821,468,233.49</u>	<u>2,222,397,723.66</u>
NON-CURRENT LIABILITIES:			
Long-term borrowings		—	—
Bonds payable		—	—
Of which: Preference shares		—	—
Perpetual bonds		—	—
Lease liabilities		476,190.47	1,838,833.74
Long-term payables		2,775,074.00	2,775,074.00
Long-term salaries payable		28,834,324.48	27,710,000.00
Estimated liabilities		350,000.00	350,000.00
Deferred income		48,604,047.04	53,019,310.68
Deferred income tax liabilities		49,166,204.34	57,603,528.33
Other non-current liabilities		<u>2,484,653.05</u>	<u>4,320,186.99</u>
TOTAL NON-CURRENT LIABILITIES		<u>132,690,493.38</u>	<u>147,616,933.74</u>
TOTAL LIABILITIES		<u><u>1,954,158,726.87</u></u>	<u><u>2,370,014,657.40</u></u>

LIABILITIES AND EQUITY	31 December 2021	31 December 2020 (Restated)
EQUITY:		
Share capital	466,700,000.00	466,700,000.00
Other equity instruments	—	—
Of which: Preference shares	—	—
Perpetual bonds	—	—
Capital reserve	68,370,342.51	68,370,342.51
Less: Treasury stock	—	—
Other comprehensive income	(1,629,142.82)	(294,142.82)
Special reserves	22,600,130.11	12,761,083.71
Surplus reserve	43,789,845.52	30,719,797.91
Undistributed profits	<u>340,451,167.21</u>	<u>278,833,318.17</u>
 Total owners' equity attributable to the parent company	 <u>940,282,342.53</u>	 <u>857,090,399.48</u>
 Minority interests	 <u>—</u>	 <u>—</u>
 TOTAL EQUITY	 <u>940,282,342.53</u>	 <u>857,090,399.48</u>
 TOTAL LIABILITIES AND TOTAL EQUITY	 <u>2,894,441,069.40</u>	 <u>3,227,105,056.88</u>

COMBINED INCOME STATEMENT

Item	Notes	2021	2020 (Restated)
I. TOTAL OPERATING INCOME	5	1,649,598,271.19	1,896,987,849.97
Less: Operating costs	10	1,324,281,691.80	1,589,507,098.69
Taxes and surcharges		4,625,554.34	5,716,584.01
Selling expenses		1,740,127.00	1,788,837.06
Administrative expenses		114,967,206.26	120,488,353.08
Research and development expenses		2,064,373.18	6,798,931.42
Finance costs		(1,193,946.47)	(4,144,429.76)
Of which: Interest expenses		10,453,276.18	9,828,562.97
Interest income		12,923,039.47	11,948,501.80
Add: Other income		7,100,071.92	23,327,899.19
Investment income		296,104.45	7,639,756.71
Of which: Investment income from associates and joint ventures		—	1,448,819.21
Gain on derecognition of financial assets measured at amortized cost		—	—
Net gain from hedging exposure		—	—
Gain on changes in fair value		227,083.33	69,375.00
Credit impairment loss		(30,066,857.34)	(6,277,334.90)
Impairment loss on assets		(22,594,470.82)	(5,341,493.12)
Gain on disposal of assets		5,951,536.93	—
II. OPERATING PROFIT		164,026,733.55	196,250,678.35
Add: Non-operating income		4,600,246.69	12,152,056.48
Less: Non-operating expenses		1,543,292.67	760,181.78
III. TOTAL PROFIT		167,083,687.57	207,642,553.05
Less: Income tax expenses	11	44,325,690.92	37,136,143.11

Item	2021	2020 (Restated)
IV. NET PROFIT	<u>122,757,996.65</u>	<u>170,506,409.94</u>
Of which: Net profit realized by the acquiree of the business combination under common control before the combination		
(I) Classified by continuity of operation:		
Net profit from continuing operation	122,757,996.65	170,506,409.94
Net profit from discontinued operation	—	—
(II) Classified by ownership:		
Net profit attributable to owners of the parent company	122,757,996.65	170,506,409.94
Minority interests	—	—
V. OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>(1,335,000.00)</u>	<u>(1,721,577.41)</u>
Other comprehensive income attributable to owners of the parent company, net of tax	<u>(1,335,000.00)</u>	<u>(1,721,577.41)</u>
(I) Other comprehensive income that may not be reclassified to profit or loss	<u>(1,335,000.00)</u>	<u>(1,721,577.41)</u>
1. Net changes from re-measurement of defined benefit plans	(1,335,000.00)	(1,721,577.41)
2. Other comprehensive income that may not be transferred to profit or loss under the equity method	—	—
3. Changes in fair value of other equity instrument investments	—	—
4. Changes in fair value of the company's own credit risk	—	—
5. Others	—	—

Item	Note	2021	2020 (Restated)
(II) Other comprehensive income that may be reclassified to profit or loss		—	—
1. Other comprehensive income that may be transferred to profit or loss under the equity method		—	—
2. Profit of loss from changes in fair value of available-for-sale financial assets		—	—
3. Profit of loss from held-to maturity investments reclassified to available-for-sale financial assets		—	—
4. Changes in fair value of other debt investments		—	—
5. Amounts of financial assets reclassified to other comprehensive income		—	—
6. Credit impairment provision for other debt investments		—	—
7. Reserves for cash flows hedges		—	—
8. Differences on foreign currency translation		—	—
9. Investment income from a package disposal of subsidiaries before the loss of control		—	—
10. Conversion of other assets to investment property measured by fair value model		—	—
11 Others		—	—
Other comprehensive income attributable to minority shareholders, net of tax		—	—
VI. TOTAL COMPREHENSIVE INCOME		<u>121,422,996.65</u>	<u>168,784,832.53</u>
Total comprehensive income attributable to owners of the parent company		121,422,996.65	168,784,832.53
Total comprehensive income attributable minority shareholders		—	—
VII. EARNINGS PER SHARE:			
(I) Basic earnings per share	12	0.26	0.37
(II) Diluted earnings per share		0.26	0.37

NOTES OF FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

Jilin Province Chuncheng Heating Company Limited (the “Company”), formally known as “Jilin Province Changre New Energy Co., Ltd.” or “Jilin Province Chuncheng Heating Limited Liability Company”, is a joint stock company with limited liability established in the People’s Republic of China (the “PRC”) on 23 October 2017. The registered office of the Company is located at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC.

The H Shares of the Company were listed on the Main Board of the Stock Exchange on 24 October 2019.

During the year, the Company and its subsidiaries (collectively, the “Group”) were involved in the following principal activities:

- (1) Heat supply, including the provision and distribution of heat, pipeline connection fee and heat transmission;
- (2) Construction, maintenance and design services and others.

The controlling shareholder of the Company is Changchun Chuncheng Investment Development Group Company Limited* (長春市春城投資發展集團有限公司), previously known as Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司), a company established in the PRC and wholly-owned by the State-owned Assets Supervision and Administration Commission of Changchun (the “SASAC Changchun”) (長春市人民政府國有資產監督管理委員會).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company carried out recognition and measurement based on actual transactions and events occurred and in accordance with the requirements of the Accounting Standards for Business Enterprises — Basic Standards (《企業會計準則—基本準則》) and specific accounting standards for business enterprises, the Application Guidance for Accounting Standards for Business Enterprises, the Interpretation of Accounting Standards for Business Enterprises and other relevant requirements (hereafter collectively referred as “ASBEs”) published by the Ministry of Finance of the PRC, and on the basis of such requirements, prepared the financial statements with regards to the requirements of the Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reports (2014 Revision) issued by the China Securities Regulatory Commission (the “CSRC”).

3. GOING CONCERN

The Company has assessed its ability to continue as a going concern for the next 12 months from the end of the Reporting Period, and has not identified any matters or circumstances that cast significant doubt on the Company’s ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern assumption.

4. ACCOUNTING ERRORS IN PREVIOUS PERIOD

In connection with the proposed public offering of not more than 155.5666 million A Shares and the proposed listing of the A shares on the Shenzhen Stock Exchange, Da Hua Certified Public Accountants (Special General Partnership), the auditor of the Company, has conducted an audit on the Group's combined financial statements for the three financial years ended 31 December 2020 and the six months ended 30 June 2021 prepared in accordance with the ASBEs. Certain differences exist between figures at the end of 2020 in the reporting combined financial statements and figures in the Company's previously published 2020 Annual Report, the differences are as follows:

(Unit: RMB0'000)

Item	Figures in 2020 Annual Report	31 December 2020	Differences
		Restated financial figures	
Total assets	323,037	322,711	(326)
Total liabilities	235,222	237,001	1,779
Net assets attributable to the Company	87,815	85,710	(2,105)
Total profit	20,444	20,764	320
Net profit	16,522	17,051	529

Further details of the above differences are set out in the Company's announcement dated 13 December 2021.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group considers the business from the perspective of service activities, which mainly include the following two reportable segments:

- (1) Heat supply, including the provision and distribution of heat, pipeline connection fee and heat transmission; and
- (2) Construction, maintenance and design services and others.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments are each managed separately because they distribute distinct products/services with different production/distribution processes and due to their distinct operating and gross margin characteristics. Segment performance is evaluated based on reportable segment profit/loss, which is measured consistently with the Group's profit/loss before tax.

Intersegment sales and transfers are conducted with reference to the selling prices used for sales made to third parties at the contractual prices which are comparable to prevailing market prices.

Unit: RMB

Year ended 31 December 2021	Heat supply	Construction, maintenance and design services and others	Total
Segment revenue	1,503,069,365.91	242,484,722.26	1,745,554,138.17
Sales to external customers	1,497,035,692.61	152,562,578.58	1,649,598,271.19
Intersegment sales	<u>6,033,673.30</u>	<u>89,922,193.68</u>	<u>95,955,866.98</u>

Reconciliation:

Elimination of intersegment sales			<u>(95,955,866.98)</u>
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1,649,598,271.19

Year ended 31 December 2020 (Restated)	Heat supply	Construction, maintenance and design services and others	Total
Segment revenue	1,455,477,916.60	523,698,245.11	1,979,176,161.71
Sales to external customers	1,420,980,855.22	476,006,994.75	1,896,987,849.97
Intersegment sales	<u>34,497,061.38</u>	<u>47,691,250.36</u>	<u>82,188,311.74</u>

Reconciliation:

Elimination of intersegment sales			<u>(82,188,311.74)</u>
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1,896,987,849.97

6. TRADE RECEIVABLES

Unit: RMB

Ageing	2021	2020 (Restated)
Within 1 year	132,043,172.92	218,040,755.49
1–2 years	122,066,008.36	61,461,066.74
2–3 years	41,783,027.54	7,646,553.25
3–4 years	4,079,250.65	6,957,525.60
4–5 years	4,009,427.60	2,083,921.24
Over 5 years	<u>12,384,620.68</u>	<u>12,636,419.28</u>
Sub-total	<u>316,365,507.75</u>	<u>308,826,241.60</u>
Less: Provision for bad debts	<u>93,304,508.74</u>	<u>49,352,347.44</u>
Total	<u>223,060,999.01</u>	<u>259,473,894.16</u>

7. CONTRACT ASSETS

Unit: RMB

Item	2021			2020 (Restated)		
	Balance of carrying amount	Impairment provision	Carrying amount	Balance of carrying amount	Impairment provision	Carrying amount
Work completed but not billed	144,135,217.97	35,091,583.04	109,043,634.93	230,256,360.41	17,072,694.03	213,183,666.38
Warranty	<u>29,993,650.78</u>	<u>5,876,005.39</u>	<u>24,117,645.39</u>	<u>19,545,949.52</u>	<u>407,986.43</u>	<u>19,137,963.09</u>
Total	<u>174,128,868.75</u>	<u>40,967,588.43</u>	<u>133,161,280.32</u>	<u>249,802,309.93</u>	<u>17,480,680.46</u>	<u>232,321,629.47</u>

8. TRADE PAYABLES

Unit: RMB

Item	2021	2020 (Restated)
Within 1 year (including 1 year)	155,862,344.18	155,086,192.72
1 to 2 years (including 2 years)	19,211,467.61	143,802,735.68
2 to 3 years (including 3 years)	34,599,241.11	40,193,052.78
Over 3 years	<u>22,505,436.49</u>	<u>25,446,945.83</u>
Total	<u>232,178,489.39</u>	<u>364,528,927.01</u>

9. CONTRACT LIABILITIES

Unit: RMB

Item	2021	2020 (Restated)
Advance heating fee	825,762,930.84	859,751,589.29
Pipeline connection fee	569,245,907.13	583,036,705.02
Custodian fee	2,833,987.66	4,144,409.35
Advance project payments	<u>13,494,004.91</u>	<u>6,064,959.75</u>
Total	<u>1,411,336,830.54</u>	<u>1,452,997,663.41</u>

10. OPERATING INCOME AND OPERATING COSTS

Unit: RMB

Item	2021		2020 (Restated)	
	Income	Cost	Income	Cost
Principal business	1,640,713,080.56	1,320,611,629.03	1,888,341,930.20	1,583,507,408.22
Other businesses	8,885,190.63	3,670,062.77	8,645,919.77	5,999,690.47

11. INCOME TAX EXPENSES

Unit: RMB

1. List of income tax expenses

Item	2021	2020 (Restated)
Current income tax expenses	65,973,025.70	61,197,466.89
Deferred income tax expenses	<u>(21,647,334.78)</u>	<u>(24,061,323.78)</u>
Total	<u>44,325,690.92</u>	<u>37,136,143.11</u>

2. Reconciliation between accounting profit and income tax expenses

Item	2021	2020 (Restated)
Total profit	167,083,687.57	207,642,553.05
Income tax expenses calculated at statutory/applicable tax rates	41,770,921.90	51,910,638.26
Effect of different tax rates applicable to subsidiaries	(333,071.61)	(1,218,632.55)
Effect of adjustments to income tax on prior periods	—	(232,420.38)
Effect of non-taxable income	(561,131.65)	(14,000,625.03)
Effect of non-deductible costs, expenses and losses	3,430,452.02	544,952.38
Effect of deductible loss on utilisation of deferred income tax assets that were not recognised in the previous period	—	—
Effect of deductible temporary difference or deductible loss on deferred income tax assets that were not recognised in the current period	18,520.26	132,230.43
Others	<u>—</u>	<u>—</u>
Income tax expenses	<u>44,325,690.92</u>	<u>37,136,143.11</u>

12. RETURN ON NET ASSETS AND EARNINGS PER SHARE

Unit: RMB

Profit during the Reporting Period	Weighted average return rate on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	13.37	0.26	0.26
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<u>11.97</u>	<u>0.24</u>	<u>0.24</u>

13. DIVIDEND

Unit: RMB

	2021	2020
Final dividend proposed after the end of the Reporting Period of RMB0.115 (2020: RMB0.103) per share	<u>53,670,500</u>	<u>48,070,100</u>

The Board resolved on 30 March 2022 that a dividend of RMB0.115 per share is to be distributed to the shareholders for the year ended 31 December 2021, subject to approval of the shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the Reporting Period has not been recognised as a liability at the end of the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Industry Overview

Clean winter heating in Northern China is an important initiative to ensure a warm winter for the public, reduce environmental pollution and win the battle against air pollution. The state and local governments have attached great importance to clean heating. Since the joint issuance of the Clean Winter Heating Plan in Northern China (2017-2021) by 10 ministries and commissions including the National Development and Reform Commission, the National Energy Administration, the Ministry of Finance and the Ministry of Environmental Protection in 2017, clean heating in Northern China has significantly improved with substantial reduction in the emissions of major atmospheric pollutants, while clean heating technology and industry have made strides in development.

In recent years, benefited from factors such as increased infrastructure investment, accelerated urbanization and growing demand for heating, central heating business in China has been developing rapidly with a steady increase in heating area and heating capacity. According to China Statistical Yearbook 2021 published by the National Bureau of Statistics, urban centralized heating area in China increased from 7,387 million sq.m. in 2016 to 9,882 million sq.m. in 2020, representing an compound annual growth rate (CAGR) of 7.5%. The pipe length of urban central heating increased from 213,600 km in 2016 to 426,000 km in 2020, representing a CAGR of 18.8%. With continuous improvement in residents' living standards and raising awareness of energy conservation and environmental protection, the centralized heating area in China is expected to further expand, which will bring more market opportunities for the heating industry.

China aims to hit peak emissions before 2030 and achieve carbon neutrality by 2060, which is a vital strategic decision made by the Party Central Committee after careful consideration. Achieving “carbon emission peak and carbon neutrality” targets is an inherent requirement for China to promote high-quality development, while also a necessary step to accelerate the high-quality development of China's central heating industry.

Today, China's clean heating industry is still in a stage of rapid development. Against the backdrop of dual control of energy consumption, China's heating industry shall firmly committed to a green, low-carbon and high-quality development path with further increases of the proportion of clean energy sources for heating such as electricity, geothermal and biomass. Look forward, the core development direction of the heating industry will be higher efficient heating systems, deeper recycling of low-carbon heat sources, development of zero-carbon heat sources and accelerating the adjustment to the source structure.

II. Business Review

In 2021, the Group was determined to forge ahead and adhere to innovation-driven development. By actively expanding the heat service area, promoting heat production, continuously increasing the investment in science and technology innovation, and comprehensively improving the modernized governance of the enterprise, the Group ensured the stable growth of the heating scale, further consolidating its leading position in the industry in Jilin Province.

(1) Heat Supply Business

While fully implementing the prevention and control of the epidemic, the Group successfully completed its mission in relation to heat supply in 2021 by improving the heat supply and production management process system, deepening the development of the intelligent heat supply network system, promoting the technical transformation and upgrading of heat supply facilities, strengthening the control of energy indicators, enhancing production safety management and improving the quality of customer services.

As at 31 December 2021, the Group's heat service area was 61.795 million sq.m., representing an increase of 1.595 million sq.m. or 2.65% from 60.20 million sq.m. in 2020. As at 31 December 2021, the Group had 507,853 heat supply customers, representing an increase of 2,065 users or 0.41% from 505,788 customers in 2020. For the year ended 31 December 2021, the Group's revenue from heat supply business was RMB1,497.04 million, representing an increase of RMB76.06 million or 5.35% from RMB1,420.98 million in 2020.

1. Customers

Customers of our heat supply business are generally residential and non-residential users within the Group's heat service area. The table below sets out a breakdown of number of, and revenue contribution by, residential and non-residential users as at/for the year ended 31 December 2021.

	As at/for the year ended 31 December			
	2021		2020	
	Number of customers	% of revenue from heat supply	Number of customers	% of revenue from heat supply
Residential users ⁽¹⁾	449,081	88.43%	449,032	88.78%
Non-residential users ⁽²⁾	58,772	11.57%	56,756	11.22%
Total	507,853	100%	505,788	100%

Notes:

- (1) The number of residential users is per household.
- (2) Non-residential users represent end-users other than residential users, such as industrial end-users, commercial end-users and other end-users.

2. *Heat procurement*

In 2021, the Group continued to pay attention to the industry development trend of green, low-carbon, energy-saving and environmental protection, continued with its operation of clean heating mainly through cogeneration, and fully met the heating demand of users in its heat service area in winter. During the Reporting Period, in addition to procuring heat from cogeneration mainly from local cogeneration plants, the Group also purchased peak-shaving boilers from its controlling shareholder, Chuncheng Investment, for heating to meet the Group's needs for additional heating area load. Xixing Energy, a subsidiary of the Group, also produced heat through its own coal-fired boilers for heat supply.

For the year ended 31 December 2021, the total heat procurement by the Group from the local cogeneration plants and its controlling shareholder, Chuncheng Investment, amounted to 20.52 million GJ and 1.25 million GJ respectively, with a total heat procurement of 21.77 million GJ, among which 19.04 million GJ of heat was used for the Group's heat supply and production purposes.

3. *Heat transmission*

For the year ended 31 December 2021, approximately 2.73 million GJ of heat procurement quota obtained from the cogeneration plants by the Group was transferred to other four heat service providers. We received a total heat transmission fee of RMB17.77 million from such four heat service providers. Heat procured from the cogeneration plants and the controlling shareholder, Chuncheng Investment, was firstly used to satisfy our own needs for heat supply.

The following table sets forth the breakdown of the usage of the Group's heat procurement for the year ended 31 December 2021:

	As at/for the year ended	
	31 December	
	2021	2020
Estimated heat procurement quota (GJ) ⁽¹⁾	23,580,000	22,560,000 ⁽⁶⁾
Heat procurement quota transferred (GJ) ⁽²⁾	2,732,291	2,575,100 ⁽⁷⁾
Actual consumption (GJ) ⁽³⁾	19,040,969	19,688,100 ⁽⁸⁾
Total heat procured (GJ) ⁽⁴⁾	21,773,260	22,263,200 ⁽⁹⁾
Utilization rate ⁽⁵⁾	80.75 %	87.27%

Notes:

- (1) The heat procurement quota was an estimate of the heat procurement prior to each heat supply period based on the historical heat procurement amount.
- (2) During the Reporting Period, we transferred certain portion of procured heat to four other heat service providers. We charged heat transmission fees accordingly.
- (3) Actual consumption of heat procured by us represents the aggregate amount of actual heat supply and consumption data each month as recorded by measuring equipment and reviewed and agreed by each of five local cogeneration plants and the controlling shareholder, Chuncheng Investment, and us.
- (4) The total heat procured was the sum of heat procurement quota transferred and the actual consumption. Procurement of heat exceeding the estimated heat procurement quota is subject to the supplemental agreements between the cogeneration plants and us.
- (5) Utilization rate of heat procurement is calculated by dividing the actual consumption by the estimated heat procurement quota.
- (6) As disclosed in 2020 Annual Report, the estimated heat procurement quota of the Company did not include the heat procurement quota of its subsidiaries, Yatai Heating and Xixing Energy. For the purpose of data comparison, the amounts shown for the year of 2020 are consolidated data of the Group.
- (7) As disclosed in 2020 Annual Report, the heat procurement quota transferred by the Company was 7,141,418GJ, including the heat procurement quota transferred to its subsidiary Yatai Heating, which has been excluded from the calculation.
- (8) As disclosed in 2020 Annual Report, the actual consumption of the Company was 13,908,768GJ, and the amounts shown for the year of 2020 are consolidated data of the Group.
- (9) As disclosed in 2020 Annual Report, the total heat procured by the Company did not include the heat procured by its subsidiaries, Yatai Heating and Xixing Energy. The amounts shown for the year of 2020 are consolidated data of the Group.

4. *Heat supply emergency repair*

In 2021, the Group focused on the investigation and rectification of safety hazards of heating supply, to guarantee the safe and stable operation of major heat supply network through the inspection, maintenance and emergency repair of heating supply facilities. The Group has formally applied drone inspection technology to identify leakage points through infrared thermal imaging system and more than 10 hidden leaks have been detected throughout the year. It effectively improves the accuracy of leak detection and reduces heat loss. In the meantime, the Group has summarized heating emergency repair technologies applicable to winter, such as short-pipe pressure plugging method, nut welding plugging method and sleeve welding plugging method for different pipe leaks based on its rich experience in emergency repair, which significantly shortens repair time and saves repair cost.

The Group handled a total of 146 cases of emergency repairs of all kinds this year, and has carried out the heat supply emergency repair procedures in strict without any safety accident.

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

The Group's construction, maintenance and design services and others cover the peripheral services business of the heat supply industry chain. We mainly provide services include engineering construction, engineering maintenance, design services and so on for heat supply companies or end-users. These services mainly cover northeast China. For the year ended 31 December 2021, revenue generated from the Group's construction, maintenance and design services and others amounted to RMB152.56 million, representing a decrease of RMB323.45 million, or 67.95%, from RMB476.01 million in 2020.

1. *Engineering construction*

For the year ended 31 December 2021, revenue generated from engineering construction amounted to RMB57.78 million, representing a decrease of RMB189.64 million, or 76.65%, from RMB247.42 million in 2020. This was mainly due to a significant drop in revenue for the period as a result of the combined impact of the completion of the "Three Supplies and Property Management (三供一業)" projects and the epidemic, which led to a decrease in the number of large projects we undertook.

In 2021, our engineering maintenance business was mainly focused on the following: (1) properly compiling and archiving information on the completion of the "Three Supplies and Property Management (三供一業)" projects, and summarizing and digesting the experience of the project to improve the overall project management capacity; (2) performing internal heat-supply facilities construction projects of the Group and seeking new opportunities for external construction projects; and (3) improving the accuracy of the project budget and strictly controlling the procurement price and quality of materials on the basis of increasing income and reducing expenditure throughout the process.

2. *Engineering maintenance*

For the year ended 31 December 2021, revenue generated from engineering maintenance amounted to RMB43.98 million, representing a decrease of RMB157.22 million, or 78.14%, from RMB201.20 million in 2020. The decrease was mainly due to a significant drop in revenue for the period as a result of the combined impact of the completion of the “Three Supplies and Property Management (三供一業)” projects and the epidemic, which led to a decrease in the number of large projects we undertook.

In 2021, our engineering construction business was mainly focused on the following: (1) properly completing the work of the “Three Supplies and Property Management (三供一業)” projects and solidly promoting the annual project tasks; (2) committing to improve the quality of the convenience services platform and operation and maintenance hosting business, reasonably expanding the business scope and increasing the service categories; and (3) improving corporate management to achieve better cost control.

3. *Design services*

For the year ended 31 December 2021, revenue generated from design services amounted to RMB8.73 million, representing a decrease of RMB9.09 million, or 51.01%, from RMB17.82 million in 2020. This was mainly due to (1) a significant decrease in related design service revenue as a result of the completion of the “Three Supplies and Property Management (三供一業)” projects during the period; (2) a decrease in revenue as a result of the fact that with the implementation of the national “double carbon” strategy, some of the coal-fired design projects included in the plan could not be implemented, resulting in a reduction in business volume.

In 2021, our design services business was mainly focused on the following: (1) continuing to improve design quality within the scope of existing business certificates and providing design consulting services through the whole process within the industry; planning in advance for the transformation to EPC (“design–procurement–construction” mode) professional general contracting to expand our business while maintaining normal operating of principal business; (2) stepping up efforts to develop our research and development (“R&D”) team, to further increase investments in scientific and technological innovation and R&D projects and to declare national, provincial, municipal and regional scientific research projects; adding 3 utility model patents authorized by the China National Intellectual Property Administration; obtaining 2 software copyrights issued by the National Copyright Administration of the People’s Republic of China, and publishing 5 papers in National Periodicals during the Reporting Period; and (3) carrying out school-enterprise cooperation with Changchun Institute of Technology, adding 1 new collaboration R&D project and attaching great importance to the application of the technological research results.

4. *Others*

For the year ended 31 December 2021, other income amounted to RMB42.08 million, representing an increase of RMB32.51 million or 339.73% from RMB9.57 million in 2020. This was mainly due to an increase in other income as a result of the increase in coal sales by Clean Energy, our new subsidiary, during the period.

(3) *Informatization Construction of Heat Supply*

The Group took the informatization and intellectualization construction of heat supply as its main goal in 2021. To this end, it further advanced the R&D of data system platform based on the existing smart heat supply network to continuously strengthen the monitor and control of the heat supply data middle ground system, and thus eventually to reduce costs and increase efficiency in heat supply production. The Group attained a new level in the innovation of its heat supply technology, and remained the leading enterprise in the heating industry towards high-tech development. During the Reporting Period, the informatization construction was mainly focused on the following:

1. *The construction of big data middle ground system of heat supply*

- (1) Upgrading the hardware on the upper side of the smart heat supply network and solving problems caused by long service life and insufficient computing power of the hardware on the upper side of the smart heat network by redeploying the business.
- (2) Sorting out all the data in the production system, billing system and customer service system, cleaning and establishing a multi-dimensional heat supply data linkage system supported by definable calculation relationships.
- (3) Providing horizontal correlation and vertical multi-dimensional access statistical analysis to trace data.
- (4) Establishing service-based mechanisms for data interface standards, access monitoring and analysis to realize data encryption transmission.
- (5) Designing a distributed framework that is based on batch processing computation and securing its storage and computation capabilities for future expanding.
- (6) Carrying out a series of big data analysis for each node of heat supply based on the above basic statistics and analysis, and collaborating with each individual system to provide comprehensive safeguard for production.

2. *3D pipeline system*

The Group has completed the research and development of “Project Phase I of 3D Pipeline System”. Specifically, it has established a virtualized 3D digital pipeline system containing all heat supply elements including heat sources, distribution pipeline network, heat exchange stations, distribution pipeline network stations and user access equipment. The system reserves an interface with the constructed automatic production system and the Internet of Things system to support the virtual reality connection of real time data such as flow, temperature and pressure of pipelines and heat supply facilities in the future, and to support mapping linkage with the big data system in years to come.

3. *“Heat Supply e-Home” (熱力e家) mobile app*

“Heat Supply e-Home” (熱力e家) mobile app is a mobile software that collects floor space and other heat supply information of heat users, establishes updated heat supply database and interfaces with third-party charging systems by developing the corresponding standardized interface, with a view to providing online payment and online services to users. The research and development of such software has been completed at current stage, initially realizing the development of user housing verification and binding function, heat supply information management and release function, online invoicing function and APP system upgrade scheme. The selection of a third-party charging system is underway, and the system will be available upon the docking bank is determined in the future.

(4) *Safety Management*

In 2021, the Group has comprehensively implemented all major decisions and deployments from the government at all levels with regard to safety production. Specifically, adhering to the safety production policy of “safety first, with focus on prevention and implementing comprehensive management (安全第一、預防為主、綜合治理)” and keeping in mind the concept of safety development, the Group strengthened its safety management efforts and safety production measures to take safety management to a new height by conducting annual safety production assessment and evaluation, safety supervision and inspection, safety production training and drills, fire-fighting equipment inspection and replacement, etc. During the Reporting Period, there were no major safety accidents in the Group.

(5) *Technology and R&D*

In 2021, the Group explored the research and development and application of new technologies and materials in the industry through in-house research and development and cooperation with social organizations including universities. The Group made staged progress in design, research and development as well as application of “big data system for smart heat supply”, “3D pipeline system” and the research of heat supply facilities cleaning and water

purifying. And the Group is expected to achieve new breakthroughs in the research on the traditional problem in the industry of heat recovery via the research and development of micro-heat pipe array layout under low-temperature heat exchange.

The Group has also commenced technical transformation projects such as the “Technical Transformation and Improvement Project on Jet Water-Water Heat Exchange Device (噴射式水—水換熱裝置技術改造升級)” and the “Optimization, Transformation and Improvement of Heat Exchange Stations (換熱站優化改造升級)”. Besides, the Group has explored the application of “Integrated Trenchless Repair Technology with Precise Leak Detection, Spot Repair and ‘Swirling Eddy Method’ (精準探漏、定點修復及“旋轉氣流法”一體化非開挖修復技術)”.

During the Reporting Period, the Group obtained a total of 13 new utility model patents granted by the State Intellectual Property Office of China and 37 computer software copyright licenses granted by the National Copyright Administration.

(6) Honors and Awards

On 18 May 2021, the Group was ranked 123rd in the “2021 China Top 500 Brands (2021中國品牌500強)” and was awarded as a “2021 China Brand Day — Top 10 Investment Value Brand (2021中國品牌日 • 十大投資價值品牌)” at the 2021 Brand Power Forum cum 2021 China Top 500 Brand Announcement Conference (2021品牌強國論壇暨2021中國品牌500強發佈會). Mr. Liu Changchun, the chairman of the Group, was named as the “2021 China Brand Day — Top 100 Outstanding Brand Entrepreneurs (2021中國品牌日 • 百名優秀品牌企業家)”.

On 27 August 2021, the Group was awarded the “Excellent Organization of the 4th China Heating Academic Annual Conference (2021) (第四屆中國供熱學術年會(2021)優秀組織獎)” by the China District Heating Association (中國城鎮供熱協會) and was honoured with the “Energy Efficiency Leader in Heating Industry of the Year at the 4th China Heating Academic Annual Conference (2021) (第四屆中國供熱學術年會(2021)年度供熱行業能效领跑者)” award.

On 17 December 2021, the Group was awarded the “14th Five-Year Plan Most Valuable Listed Company for Investment (十四五最具投資價值上市公司)” in the 11th Hong Kong International Finance Forum cum China Securities Golden Bauhinia Awards (中國證券金紫荊獎) and Mr. Liu Changchun, the chairman of the Group, was honoured with the “2021 Outstanding Entrepreneur of the Year (2021年度卓越企業家)” award.

III. Financial Position and Operating Results

(1) Revenue

The Group's revenue decreased by 13.04% to RMB1,649.60 million in 2021 as compared with RMB1,896.99 million in 2020. This was mainly due to revenue from the Group's construction, maintenance and design services and other business decreased by 67.95% to RMB152.56 million in 2021 as compared with RMB476.01 million in 2020, resulting from a decrease in revenue as a result of the completion of the "Three Supplies and Property Management (三供一業)" projects and the epidemic, which led to a decrease in the number of large projects we undertook. The effect of the aforesaid decrease in revenue was partially offset by an increase in revenue from the Group's heat supply business in 2021 by 5.35% from RMB1,420.98 million in 2020 to RMB1,497.04 million in 2021. The increase in revenue from the heat supply business was mainly attributable to (i) an increase in revenue from heating fee and pipeline connection fee of RMB32.47 million due to the increase in heat supply area; (ii) the consolidation of revenue of Xixing Energy for the entire year of 2021 whereas revenue of Xixing Energy was only consolidated since 11 June 2020 in the previous year, representing an increase of RMB41.02 million year-on-year.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i> (Restated)	Change in percentage
Heat supply, of which:			
Provision and distribution of heat	1,411,751	1,340,572	5.31%
Pipeline connection fee	70,117	65,704	6.72%
Heat transmission	<u>15,168</u>	<u>14,705</u>	<u>3.15%</u>
Subtotal	<u>1,497,036</u>	<u>1,420,981</u>	<u>5.35%</u>
Construction, maintenance and design services and others, of which:			
Engineering construction	57,776	247,422	-76.65%
Engineering maintenance	43,977	201,195	-78.14%
Design services	8,731	17,821	-51.01%
Others	<u>42,078</u>	<u>9,569</u>	<u>339.73%</u>
Subtotal	<u>152,562</u>	<u>476,007</u>	<u>-67.95%</u>
Total	<u><u>1,649,598</u></u>	<u><u>1,896,988</u></u>	<u><u>-13.04%</u></u>

(2) Other Income and Other Net Gains

The Group's other income and other net gains decreased by 48.09% to RMB24.62 million in 2021 as compared with RMB47.43 million in the same period of 2020, mainly due to the decrease in other income received from the grants for employment stabilization and epidemic subsidies. Non-operating income and interest income were generally the same as the previous year.

(3) Operating Costs

The Group's operating costs decreased by 16.69% to RMB1,324.28 million in 2021 as compared with RMB1,589.51 million in 2020.

The following table sets out the breakdown of the operating costs by business segment:

	2021 RMB'000	2020 RMB'000 (Restated)	Change in percentage
Operating costs by business segment			
Heat supply	1,201,204	1,198,771	0.20%
Construction, maintenance and design services and others	<u>123,078</u>	<u>390,736</u>	<u>-68.50%</u>
Total	<u><u>1,324,282</u></u>	<u><u>1,589,507</u></u>	<u><u>-16.69%</u></u>

Heat supply costs

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

	2021 RMB'000	2020 <i>RMB'000</i> (Restated)	Change in percentage
Operating costs for heat supply			
Heat procurement costs	647,794	640,550	1.13%
Coal	36,175	37,658	-3.94%
Maintenance and repair	78,810	75,702	4.11%
Labor	144,602	146,053	-0.99%
Depreciation and amortization	129,567	134,310	-3.53%
Utility	76,258	71,419	6.78%
Input VAT transferred out	46,107	45,808	0.65%
Others	41,891	47,271	-11.38%
Total	<u>1,201,204</u>	<u>1,198,771</u>	<u>0.20%</u>

In 2021, the Group's heat procurement costs increased by 1.13% to RMB647.79 million as compared with RMB640.55 million in 2020, primarily due to an increase of heat procurement costs as a result of the increase in heat supply area.

In 2021, the Group's coal cost was RMB36.18 million as compared to RMB37.66 million in 2020, and the coal cost in 2021 was remained approximately the same as 2020.

In 2021, the Group's maintenance and repair costs increased by 4.11% to RMB78.81 million as compared with RMB75.70 million in 2020, primarily due to an increase in maintenance costs as a result of the increase in scale of the heat supply business.

In 2021, the Group's labor cost amounted to RMB144.60 million as compared with RMB146.05 million in 2020. Labor costs in 2021 remained largely stable as compared with 2020.

In 2021, the Group's depreciation and amortization decreased by 3.53% to RMB129.57 million as compared with RMB134.31 million in 2020, primarily due to the decrease in depreciation expenses as a result of the full depreciation of certain assets by Yatai Heating.

In 2021, the Group's utility cost increased by 6.78% to RMB76.26 million as compared with RMB71.42 million in 2020, primarily due to the increase in the utility cost which is in line with the increase in revenue from heat supply.

In 2021, the Group's input VAT transferred out amounted to RMB46.11 million, as compared with RMB45.81 in 2020. Input VAT transferred out in 2021 remained largely stable as compared with 2020.

In 2021, the Group's other cost decreased by 11.38% to RMB41.89 million as compared with RMB47.27 million in 2020, primarily due to cost reduction as a result of enhanced control of other costs.

Costs for construction, maintenance and design services and others

Operating costs for construction, maintenance and design services and others primarily consists of cost of materials, labor, machinery and other costs. In 2021, the operating costs for construction, maintenance and design services and others decreased by 68.50% to RMB123.08 million as compared with RMB390.74 million in 2020. The decrease in cost mainly due to decrease in business as a result of the completion of the “Three Supplies and Property Management (三供一業)” projects.

(4) Gross Profit and Gross Profit Margin

In 2021, the Group's gross profit increased by 5.80% to RMB325.32 million as compared with RMB307.48 million in 2020. In 2021, the Group's gross profit margin increased by 3.51% to 19.72% as compared with 16.21% in 2020. This was mainly due to an increase in revenue in the heat supply business and coal sales business as a result of increased heating area in the heat supply segment; and the increase in gross profit due to the application of smart heating network (智慧熱網) which regulates the heat scientifically, rationally and effectively.

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

	2021	2020
	RMB'000	RMB'000
		(Restated)
Operating revenue	1,649,598	1,896,988
Operating costs	1,324,282	1,589,507
Gross profit	325,316	307,481
 Gross profit margin	 19.72%	 16.21%

(5) *Administrative Costs*

In 2021, the Group's administrative costs decreased by 4.58% to RMB114.97 million as compared with RMB120.49 million in 2020, primarily due to a decrease in administrative costs as a result of the reduction of management personnel in Yatai Heating.

(6) *Finance Costs*

In 2021, the Group's finance costs increased by RMB2.95 million to RMB1.19 million as compared with RMB4.14 million in 2020, primarily due to the financing costs incurred for the transfer of the trade receivables of the Group's construction business.

(7) *Income Tax Expenses*

In 2021, the Group's income tax expenses increased by 19.36% to RMB44.33 million as compared with RMB37.14 million in 2020, which was principally due to the increase in taxable income as calculated in accordance with the Enterprise Income Tax Law and its relevant regulations and the income tax expenses for the current period increased by RMB7.19 million as compared to the previous period.

(8) *Profit for the Year*

In 2021, the Group's profit for the year decreased by 28.00% to RMB122.76 million as compared with RMB170.51 million in 2020. The decrease was mainly due to (i) a significant decrease in revenue of construction, maintenance and design services and other business as a result of the completion of the "Three Supplies and Property Management (三供一業)" projects and a significant decrease in revenue for the current period as a result of a decrease in the number of large projects we undertook; and (ii) a significant increase in bad debts as a result of the low collection rate of the receivables from engineering companies during the year.

(9) *Profit Attributable to Owners of the Company*

In 2021, profit attributable to owners of the Company decreased by 28.00% to RMB122.76 million as compared with RMB170.51 million in 2020. The decrease in profit attributable to owners of the Company was in line with the decrease in profit for the year.

(10) Liquidity and Capital Resources

The Group's cash and cash equivalents decreased by 9.30% to RMB664.31 million as at 31 December 2021, as compared with the balance of RMB732.40 million as at 31 December 2020, which was primarily due to (i) the decrease in net cash flow from operating activities of RMB291.86 million in 2021 as compared to 2020; and (ii) the increase in consolidated net cash flow from investing activities and financing activities of RMB194.63 million in 2021 as compared to 2020. The main sources of the Company's operating capital were from (i) unutilised bank financing facilities of RMB102.61 million as at 31 December 2021; and (ii) its own funds accumulated from operating activities, as at 31 December 2021, cash and cash equivalents amounted to approximately RMB664.31 million. As at 31 December 2021, the Group had no borrowings.

(11) Capital Expenditure

In 2021, the Group's capital expenditure increased by 16.63% to RMB78.14 million, as compared with RMB67.00 million in 2020. The capital expenditure was mainly attributable to purchase of fixed assets.

(12) Capital Structure

As of 31 December 2021, the equity attributable to owners of the Group amounted to RMB940.28 million, which represents an increase of RMB83.19 million as compared to 31 December 2020, mainly due to the profit for the year.

IV. Use of Proceeds from IPO

The H Shares of the Company were successfully listed on the Main Board of the Hong Kong Stock Exchange on 24 October 2019. A total of 116,700,000 H Shares with par value of RMB1.00 each were issued at the price of HK\$2.35 per Share through placing and Hong Kong public offering (the “**Global Offering**”), accounting for 25% of the total share capital after the issuance, representing a financing scale of approximately HK\$274.2 million. The actual net proceeds from the Global Offering, after deducting the underwriting commission and other estimated expenses in connection with the Global Offering, amounted to approximately HK\$220.5 million (equivalent to approximately RMB199.5 million, the “**IPO Proceeds**”).

As of 31 December 2021, net proceeds from the Global Offering have been fully utilized in accordance with the purposes set forth in the section entitled “Future Plans and Use of Proceeds” in the prospectus of the Company dated 27 September 2019, the announcement of the Company issued on 29 October 2020 in relation to its proposed change in the planned use of the unutilized net proceeds, and the revised allocation approved by the Shareholders at the extraordinary general meeting held on 30 December 2020. As at 31 December 2021, the net proceeds from the Global Offering have been fully utilized.

Details of the IPO Proceeds are set out below:

Use of net proceeds (RMB million (% of net proceeds))	Original planned use of net proceeds	Revision of allocation	Net proceeds after revision of allocation	Amount utilized for the year ended 31 December 2021
1. Upgrade the smart heat supply network	81.8 (41.0%)	-50.0 (-25.1%)	31.8 (15.9%)	31.8 (15.9%)
2. Replace pipelines and facilities	81.8 (41.0%)	-50.0 (-25.1%)	31.8 (15.9%)	31.8 (15.9%)
3. Expand service area	25.9 (13.0%)	—	25.9 (13.0%)	25.9 (13.0%)
4. Acquisitions	10.0 (5.0%)	+100.0 (+50.2%)	110.0 (55.2%)	110.0 (55.2%)
	199.5 (100.0%)	—	199.5 (100.0%)	199.5 (100.0%)

V. Risk Factors and Risk Management

(1) *Industry Risk*

Policies such as the national goal of “carbon emission peak and carbon neutrality” may lead to higher costs for thermal power plants, and the government may correspondingly increase the ex-factory price of heat sources for cogeneration enterprises, but heat supply enterprises cannot regulate the procurement price of heat sources directly. Meanwhile, the prices of services provided by the Group’s related heating construction, maintenance and design business are also subject to control and regulation under government policies. Therefore, the Group’s operations may be affected by adjustments to relevant laws and regulations as well as local policies in the PRC that are relevant to the heating industry, nevertheless, government departments will conduct in-depth studies on the industry before making any adjustments and take into full consideration the actual operating conditions of the companies within the industry.

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

(2) *Policy Risk*

The Group's operation activities of heat supply are subject to adjustment in accordance with changes in national industrial policies. If there is a significant change in industrial policies of heat supply, it may intensify competition in the industry and heighten the market risks. National and local environmental protection authorities may further impose more stringent environmental protection standards, which may result in increased operating cost for the Group to meet such standards.

The Group will adhere to the principles and requirements set out in various national and local government economic policies, industrial policies, as well as laws and regulations so as to formulate its development goals and directions, strengthen internal supervision and improve management level. At the same time, the Group will invest more costs in upgrading existing equipment and optimizing equipment parameters to meet the requirements of regulatory authorities.

(3) *Climate Risk*

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

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

(4) *Exchange Risk*

The Group's business activities are mainly conducted in the PRC. Changes in exchange rates do not have a material effect on the Group.

VI. Other Significant Events

(1) *Significant Investments*

The Group did not have any significant investments for the year ended 31 December 2021.

(2) *Material Acquisitions and Disposals*

The Group did not have any material acquisitions and disposals as at 31 December 2021.

(3) *Capital Commitment and Contingent Liabilities*

The Group did not have any material capital commitment or contingent liabilities as at 31 December 2021.

(4) *Charge on Assets*

There was no material charge on the Group's assets as at 31 December 2021.

(5) *Employees and Remuneration Policies*

As at 31 December 2021, the Group had a total of 1,665 employees, all of whom are based in the PRC. In 2021, the Group maintained its existing employees' remuneration package which comprises basic salary, position salary and monthly and yearly performance incentives in accordance with the Measures for Employees' Wage Management (《勞動工資管理辦法》). The determination of remuneration based on both position value and performance appraisals helps motivate employees' contribution and dedication to the Group.

During the Reporting Period, the Group continued to improve its training system and training mechanism around the construction of a talent pool and the growth needs of its staff, established access for staff development, carried out supplementary selection of outstanding talents and orderly conducted staff mobility strategies such as rotation and position competition in their day-to-day work so as to promote the development of the group entities and appreciation of human capital.

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

VII. Prospects and Outlook

As at 24 October 2021, the Communist Party of China Central Committee and the State Council released a document titled "Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy", which provides a systematic plan and overall deployment for the significant work of carbon dioxide peaking and carbon neutrality.

2022, the year of the 20th National Congress of the Communist Party of China, is also a crucial year for the Implementation of “The Fourteenth Five-Year Plan”. Under the general environment of “carbon emission peak and carbon neutrality” target and the changing situation of the central heating supply market, the Group will demonstrate its responsibility as a state-owned enterprise, actively respond to a series of national policies, continuously take advantage of the safety and energy-saving of cogeneration central heating, continuously increase investment in technological innovation and technology research and development, actively explore green, low-carbon and environmentally friendly clean energy heating methods, continue to create a heat supply model — the “smart technology + clean energy (智慧科技 + 清潔能源)” model — that is centered on energy conservation and environmental protection. In addition, the Group will continue to expand the scale of development of the heat supply industry chain around the heat supply business, optimize its strategic layout, revolutionize its business model, improve its management ability to further improve market competitiveness.

Compliance with Corporate Governance Code

As a company listed on the Hong Kong Stock Exchange, the Company is committed to maintaining high standards of corporate governance. The Company has complied with the code provisions in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules at all times during the Reporting Period.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code as the code of conduct and rules governing the dealings by all of our Directors and supervisors (the “**Supervisors**”) in the securities of the Company. Having made specific enquiry with the Directors and Supervisors of the Company, all Directors and Supervisors have confirmed that they have strictly complied with the required standard set out in the Model Code during the year ended 31 December 2021. The Company has also set up guidelines in respect of the dealings in the Company’s securities by its relevant employees (as defined in the Listing Rules), which terms are no less exacting than those of the Model Code.

Directors’ Responsibilities in relation to the Financial Statements

The Directors acknowledge their responsibility in relation to the preparation of the financial statements of the Company and to ensure that the financial statements of the Company are prepared in accordance with the relevant regulations and applicable accounting standards and that the financial statements of the Company are published in a timely manner.

Purchase, Sale or Redemption of Listed Securities or Redeemable Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities or redeemable securities for the year ended 31 December 2021.

Convertible Securities, Options, Warrants or Similar Rights

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries had issued or granted any convertible securities, options, warrants or other similar rights or exercised any conversion or subscription rights under any convertible securities, options, warrants or other similar rights issued or granted by the Company or any of its subsidiaries at any time.

Issue of Bonds

For the year ended 31 December 2021, neither the Company nor any of its subsidiaries had issued any bonds.

Review of Annual Results

The Company has established the audit committee of the Company (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three members, namely Mr. Poon Pok Man, Mr. Liu Changchun and Mr. Wang Yuguo. Mr. Poon Pok Man is the chairman of the Audit Committee. The Audit Committee of the Company and the Company’s independent auditors have reviewed the annual results of the Group for the year ended 31 December 2021 and agreed with the accounting method adopted by the Company.

Scope of Work of Da Hua Certified Public Accountants

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Group’s auditor, Da Hua Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year.

Amendments to the Articles of Association

Shareholders passed a resolution to approve the amendments to the Articles of Association at the extraordinary general meeting on 24 February 2021, details of the amendments are set out in the circular of the Company dated 15 January 2021. The latest version of the Articles of Association is also available on the websites of the Company and the Hong Kong Stock Exchange.

Final Dividend

The Board resolved to propose to the Shareholders at the AGM to be held on 20 May 2022, for their consideration and approval of the payment of a final dividend of RMB0.115 per Share (tax inclusive) (2020 : RMB0.103 per Share) for the year ended 31 December 2021 (the “**2021 Final Dividend**”) payable to the Shareholders, whose names appear on the register of members of the Company on 8 June 2022, in an aggregate amount of approximately RMB53.67 million (2020 : approximately RMB48.07 million). The 2021 Final Dividend will be denominated and declared in RMB. Dividends on Domestic Shares will be paid in RMB and dividends on H Shares will be paid in Hong Kong dollars. Subject to the passing of the relevant resolution at the AGM, the 2021 Final Dividend are expected to be paid on or around 8 July 2022.

Pursuant to the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》) and the Implementation Rules of the Enterprise Income Tax Law of People’s Republic of China (《中華人民共和國企業所得稅法實施條例》) implemented in 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% when distributing the 2021 Final Dividend to its non-resident enterprise Shareholders of overseas H Shares (including HKSCC Nominees Limited, other corporate nominees or trustees, or other entities and organizations) whose names appear on the H Shares register of members of the Company on 8 June 2022.

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

those countries which have not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Shareholders.

The Company will determine the country of domicile of the individual H Share Shareholders based on the registered address as recorded in the register of members of the Company on 8 June 2022 (the “**Registered Address**”). If the country of domicile of an individual H Share Shareholder is not the same as the Registered Address or if the individual H Share Shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H Share Shareholder shall notify and provide relevant supporting documents to the Company on or before Wednesday, 1 June 2022. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H Share Shareholders may either personally or appoint a proxy to attend to the procedures in accordance with the requirements under the tax treaty notice if they fail to provide the relevant supporting documents to the Company within the time period stated above.

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

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

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

The Company was not aware of any arrangement under which a Shareholders has waived or agreed to waive any dividend for the year ended 31 December 2021.

Closure of Register of Members

For the purpose of determining the Shareholders’ rights to attend and vote at the AGM and the entitlement to the proposed 2021 Final Dividend, the register of members of the Company will be closed from Tuesday, 17 May 2022 to Friday, 20 May 2022 (both days inclusive) and from Thursday, 2 June 2022 to Wednesday, 8 June 2022 (both days inclusive) respectively, during which period no transfer of H Shares will be registered.

In order to be eligible to attend and vote at the forthcoming AGM, holders of H Shares shall lodge transfer documents with the Company’s H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 16 May 2022.

In order to be entitled to the proposed 2021 Final Dividend (subject to the approval by the Shareholders at the forthcoming AGM), holders of H Shares shall lodge transfer documents with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 1 June 2022.

Publication of Annual Results and Annual Report

This announcement is published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.cc-tp.com.cn>). The 2021 annual report of the Company containing all the information required by the applicable Listing Rules will be despatched to the Shareholders and available on the above websites in due course.

DEFINITIONS

“AGM”	the annual general meeting of the Company for the year 2021 to be held on Friday, 20 May 2022 or any adjournment thereof
“ASBEs”	the Accounting Standards for Business Enterprises — Basic Standards (《企業會計準則—基本準則》) issued by the Ministry of Finance and the specific accounting standards for business enterprises, the application guidance for the ASBEs, the interpretation of ASBEs and other relevant requirements
“Articles” or “Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Board”	the board of Directors of the Company
“Chuncheng Investment”	Changchun Chuncheng Investment Development Group Company Limited* (長春市春城投資發展集團有限公司), previously known as 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
“Clean Energy”	Jilin Chuncheng Clean Energy Company Limited* (吉林省春城清潔能源有限責任公司), a wholly-owned subsidiary of the Company
“Company” or “We”	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司) (stock code: 1853), a company incorporated in the PRC on 23 October 2017 and is a joint stock limited liability company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries

“H Share(s)”	the issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“heat service area”	gross floor areas covered by heat supply, including both the heat service area which we fully or partially charge for our heat fees
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	the lawful currency of Hong Kong
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing”	the listing of the H Shares of the Company on the Main Board of the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“PRC”	The People’s Republic of China and for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Reporting Period”	the period from 1 January 2021 to 31 December 2021
“RMB”	the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 per share
“Shareholder(s)”	the shareholder(s) of the Company
“Three Supplies and Property Management (三供一業)”	heat supply, water supply, electricity supply and property management services
“Xixing Energy”	Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司), previously known as Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司), a wholly-owned subsidiary of the Company

“Yatai Heating”

Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司), a wholly-owned subsidiary of the Company

“%”

percent

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

Jilin, the PRC, 30 March 2022

As at the date of this announcement, the non-executive Director of the Company is Mr. Liu Changchun (Chairman); the executive Directors of the Company are Mr. Yang Zhongshi, Mr. Shi Mingjun, Mr. Xu Chungang and Mr. Li Yeji; and the independent non-executive Directors of the Company are Mr. Wang Yuguo, Mr. Fu Yachen and Mr. Poon Pok Man.

* *For identification purpose only*