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 REPORT 2019

* For identification purpose only

Contents

DEFINITIONS

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

"AGM"	the annual general meeting of the Company for the year 2019 to be held on Wednesday, 27 May 2020 or any adjournment thereof
"Articles of Association"	the articles of association of the Company (as amended, modified or otherwise supplemented from time to time)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司) (stock code: 1853), which was incorporated in the PRC on 23 October 2017 and is a joint stock limited liability company
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Group"	the Company and its subsidiaries
"Controlling Shareholder Group"	the Controlling Shareholder and its subsidiaries (other than members of our Group)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Corporate Governance"	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Shareholder(s)"	the shareholder(s) of the Company
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	domestic ordinary share(s) in the Company's registered capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and held by PRC nationals or PRC incorporated entities, and are not listed or traded on any stock exchange

"Listing"	the listing of the H Shares of the Company on the main board of the Stock Exchange
"Listing Date"	24 October 2019, the date on which the H Shares of the Company were listed on the Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"RMB"	the lawful currency of the PRC
"Hong Kong dollars" or "HK$"	the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Share(s)"	ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 per share
"H Share(s)"	the ordinary share(s) in issue in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the main board of the Hong Kong Stock Exchange
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"heat service area"	gross floor areas covered by heat supply, including both the heat service area which we fully and partially charge for our heat fees
"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
"Heating Engineering Design"	Jilin Province Heating Engineering Design and Research Company Limited* (吉林省熱力工程設計研究有限責任公司), a wholly-owned subsidiary of the Company
"Changre Electrical Apparatus"	Jilin Province Changre Electrical Apparatus Company Limited* (吉林省長熱電氣儀錶有限公司), a wholly-owned subsidiary of the Company
"Changchun Runfeng"	Changchun City Runfeng Construction Installation Engineering Company Limited* (長春市潤鋒建築安裝工程有限責任公司), a wholly-owned subsidiary of the Company
"Changre Maintenance"	Jilin Province Changre Maintenance Service Company Limited* (吉林省長熱維修實業有限公司), a wholly-owned subsidiary of the Company

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"Changre Pipelines"	Jilin Province Changre Pipelines Transmission Company Limited* (吉林省長熱管網輸送有限公司), a wholly-owned subsidiary of the Company
"Biomass Power"	Jilin Province Chuncheng Biomass Power Co., Ltd.* (吉林省春城生物質能源有限公司), a wholly-owned subsidiary of the Company
"FAW Sihuan"	Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司), a joint venture company in which the Company held 50% equity interest
"No. 2 Cogeneration Plant"	Datang Changchun No. 2 Thermoelectricity Limited* (大唐長春第二熱電有限責任公司), Changchun Thermoelectricity Development Company* (長春熱電發展有限公司) (deregistered), Datang Jilin Power Generation Co., Ltd. Heating Branch* (大唐吉林發電有限公司熱力分公司), subsidiaries and branch of their holding company Datang Jilin Power Generation Co., Ltd.* (大唐吉林發電有限公司), which are independent third parties and primarily engaged in power generation and heating generation businesses, and where the context requires, the cogeneration plant operated, individually or collectively by the above
"No.4 Cogeneration Plant"	Huaneng Jilin Energy Sales Co., Ltd.* (華能吉林能源銷售有限公司) and Changchun thermal power plant of Huaneng Jilin Power Generation Co., Ltd.* (華能吉林發電有限公司長春熱電廠), the wholly-owned subsidiary and branch of Huaneng Jilin Power Generation Co., Ltd.* (華能吉林發電有限公司), which are independent third parties and primarily engaged in power generation and heat generation businesses, and where the context requires, the cogeneration plant operated, individually or collectively by the above
"No. 5 Cogeneration Plant"	Jilin Electric Power Co., Ltd. Changchun Thermoelectricity Branch* (吉林電力股份有限公司長春熱電分公司), principally engaged in electricity supply and heat production, which is an independent third party
"Three Supplies and Property Management"	heat supply, water supply, electricity supply, and property management services
"%"	Percent

* *For identification purposes only*

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2019, the development of the heat supply industry continued to improve and heat supply enterprises above designated size have received great attention from large central state-owned enterprises, local state-owned enterprises, wholly foreign-owned enterprise and financial institutions. Heating enterprises in northern China are undergoing industry consolidation such as mergers and acquisitions while those in the south are actively exploring and developing new energy heat supply system. The heat supply industry is expected to grow towards a more diverse, intelligent, environmentally-friendly and comfortable manner.

The policy of "strengthening pollution prevention and control and ecological construction, and accelerating the promotion of green development" was put forward at the Central Economic Working Conference in 2019. Against the backdrop of the ever-increasing investment in municipal centralized heating and heat supply area in the PRC, the construction and development of municipal centralized heating system is an effective means for the PRC's economy and society to achieve energy conservation, reduce environmental pollution and practice sustainable development.

Chuncheng Heating has resolutely implemented the decisions and arrangements of the Central Committee of the Communist Party of China and the State Council over the past year. Under the leadership of the local government, the Company has been steadily promoting the mixed-ownership reform, actively exploring asset securitization and leveraging the capital market to drive greater and stronger growth. On 24 October 2019, the Company was successfully listed on the main board of the Hong Kong Stock Exchange and became the world's first heating enterprise which entered the capital market in Hong Kong. The Company made a public offering of 116,700,000 H Shares which raised proceeds of approximately HK$274 million with an over-subscription of 97.25 times, showing that the Company has been highly recognized by the market.

In the past year, Chuncheng Heating has been consistently pursuing technological innovation, focusing on clean energy development, promoting industrial integration and ensuring safe production with satisfactory progress. In addition to the steady improvement in operating results, the Company also witnessed an increase in its brand value and a significant enhancement of its reputation in the industry. As of the end of 2019, the Company's operating revenue was RMB1,561.4 million, representing a year-on-year increase of 8.4%; and net profit was RMB134.0 million, representing a year-on-year increase of 30.5%.

With the deepening reform of the heat supply industry system by the PRC government and constant advancements in smart heating technology, it is expected that the heating industry will be facing revolutionary changes. We will capture every opportunity arising from the reform, facilitate asset integration and optimize the industrial layout, so as to consolidate our leading position in the industry.

In 2020, our strategies will focus on four aspects: firstly, make full use of the proceeds to increase the investment in scientific and technological innovation and enhance the operational efficiency of the smart heating network system; secondly, seize historic opportunities and facilitate industrial consolidation to further maximize the economies of scale.; thirdly, actively explore clean energy heating technology and promote industrial transformation and upgrading; lastly, further strengthen our construction, maintenance and design services capabilities to develop our advantages in the upstream and downstream industrial chain.

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

Liu Changchun
Chairman

GENERAL MANAGER'S REPORT

Dear Shareholders,

In 2019, the Company successfully listed on the main board of the Hong Kong Stock Exchange. Under the leadership of the Board, the whole management team duly performed their duties with excellent teamwork. Focusing on the annual goals of the Company, the management have been working on enhancing the management of heat supply quality and increasing investment in scientific and technological innovation. The annual objectives were well accomplished, allowing the heat supply business of the Company to continue advancing along the path of high-quality development.

1. Business Operations

As at 31 December 2019, the total assets of the Group amounted to RMB2.57 billion, representing a year-on-year growth of 15.8%. The revenue from heat supply business amounted to RMB960.7 million, representing a year-on-year increase of 2.3%. The revenue from construction, maintenance and design services amounted to RMB600.7 million, representing a year-on-year increase of 20.0%. Liquidity and cash flow of the Group remained healthy.

2. Production Safety

The Group attaches great importance to work safety. In 2019, the Group invested RMB3.2 million in safety production, representing a year-on-year increase of 9.5%. It has held 5 meetings of the production safety committee and 7 meetings on production safety. 48 safety trainings and 68 emergency drills were organised. The Group conducted 21 inspections led by the management with a potential hazard rectification rate of 100%. Application of its management system for production safety for the State Administration of Work Safety's second-level enterprise safety standard was submitted in 2019 and successfully approved.

3. Scientific and Technological Innovation

In 2019, the Group increased its investment in scientific and technological innovation and continued to improve its in-house research and development capabilities, successfully obtaining a number of patents and software copyrights in relation to the heat supply business. Meanwhile, the Group further upgraded the functions of its smart heating network system and expanded the collection scope of data modules which effectively enhanced the monitoring and control capabilities of the heating parameters of heat sources, heat exchange stations and primary and secondary distribution pipelines. This allowed the Group to operate its heat supply business to operate in a more intelligent, economical and efficient manner and consolidate its leading position in the intelligent heating industry.

4. Cost Control

The Group has adopted aggressive and effective cost control measures to increase the profit of heat supply and related businesses. Through the monitoring and management of the annual operating plan, costs including production costs, procurement costs and labor costs were effectively controlled. In 2019, the inspection and maintenance work for a total of 12,000 heat-supply facilities and the repair and renovation work of primary distribution pipelines of 12.1 km were conducted with a total investment of over RMB60 million. Meanwhile, the improvement of internal management and training together with the application of innovative technologies effectively enhanced employee productivity and further reduced labor costs.

5. User Services

To further enhance the quality of its user services, the Group actively innovated its service model and established a total of 740 WeChat groups for heat supply management involving around 150,000 users, developing a communication channel between users and the Company. Moreover, the Group proactively carried out home visit activities and visited over 300,000 household users throughout the year, achieving full coverage of services. The combination of online and offline channels has streamlined the service process and enhanced service quality with a drop in user complaint rate of 70% generally. The Group has met the service standards of a class A enterprise with a significant improvement in its social recognition.

6. Construction, Maintenance and Design Services

In 2019, the Group further enhanced the management level of its construction, maintenance and design services and conducted tendering and bidding, procurement and construction and maintenance in strict compliance with the relevant systems, and its business scale continued to expand. In addition to profit generation, the Heating Engineering Design was also awarded the national “High-tech Enterprise” (高新技術企業) and the provincial “Little Giant Enterprises in Science and Technology” (科技小巨人企業), which further strengthened the Groups’s competitive edge in the industry.

In 2020, the Group will further enhance the level of corporate governance, strengthen its internal control management and risk prevention and control measures and ensure that the information disclosure is true, accurate and complete. Meanwhile, it will actively seize opportunities arising from favorable policies of the heating industry to facilitate industrial consolidation and achieve scientific and technological innovation, aiming to set a record high in its operating results.

Yang Zhongshi
General Manager

CORPORATE INFORMATION

Corporate Information

Name in Chinese: 吉林省春城熱力股份有限公司
Name in English: Jilin Province Chuncheng Heating Company Limited*
Registered Address: No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, PRC
Headquarters/Principal Place of Business: No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, PRC
Place of Business in Hong Kong: 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Company's Website: www.cc-tp.com.cn
Email: ccrl-zqb@ccrljt.com

Information of Shares of the Company

Stock Short Name: CHUNCHENG HEAT
Stock Code: 1853

Executive Directors

Mr. YANG Zhongshi *(Vice Chairman of the Board)*
Mr. SHI Mingjun
Mr. XU Chungang
Mr. LI Yeji

Non-executive Director

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

Independent Non-executive Directors

Mr. WANG Yuguo
Mr. FU Yachen
Mr. POON Pok Man

Supervisors

Mr. WANG Fenghua *(Chairman)*
Ms. WANG Xuejing
Ms. LI Xiaoling

Authorized Representatives

Mr. XU Chungang
Mr. WAN Tao

Audit Committee

Mr. POON Pok Man *(Chairman)*
Mr. LIU Changchun
Mr. WANG Yuguo

Remuneration and Assessment Committee

Mr. FU Yachen *(Chairman)*
Mr. XU Chungang
Mr. POON Pok Man

Nomination Committee

Mr. WANG Yuguo *(Chairman)*
Mr. YANG Zhongshi
Mr. FU Yachen

Strategy Committee

Mr. LIU Changchun *(Chairman)*
Mr. SHI Mingjun
Mr. WANG Yuguo

Joint Company Secretaries

Mr. WAN Tao
Ms. TONG Suet Fong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

CORPORATE INFORMATION

Auditor

Ernst & Young
22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

Legal Advisers

as to Hong Kong law:

Lau, Horton & Wise LLP
8th Floor, Nexxus Building,
41 Connaught Road Central,
Central,
Hong Kong

as to PRC law:

Jilin ZhengJi Law Firm*
(吉林正基律師事務所)
No.1 Fuzhi Road,
Jingyue Economic Development Zone,
Changchun City, Jilin Province, PRC

Compliance Adviser

Messis Capital Limited
Room 1606, 16/F, Tower 2 Admiralty Centre,
18 Harcourt Road, Admiralty,
Hong Kong

Principal Banks

Jilin Jiutai Rural Commercial Bank (Xinjia Branch)
Jilin Jiutai Rural Commercial Bank (Jingyue Branch)
Bank of Jilin Co., Ltd. (Changchun Technology Branch)
Bank of China Co., Ltd. (Nanhu Road Branch)
Bank of China Co., Ltd. (Jiefang Road Branch)
Bank of Communications Co., Ltd. (Chaoyang Branch)

CORPORATE INFORMATION

Corporate Profile

Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司) (the "Company") was established on 23 October 2017 and the H Shares of which were listed on the Hong Kong Stock Exchange on 24 October 2019 (stock code: 1853). Located at Changchun City, Jilin Province, the Company is engaged in the provision of heat supply services for approximately 320,000 residential and non-residential users in Changchun. As at the reporting period, the heat service area of the Company was approximately 39.5 million sq.m..

The Company has more than 20 years of operating history in the provision of heat supply services and has established a leading position in the heating industry. The 8 business units of the Company is responsible for transmitting heat to the main municipal areas in Changchun using the cogeneration technology, the best heat supply mode in the industry which is energy-saving, efficient and environmentally-friendly.

Apart from heat supply business, the Company also provides construction, maintenance and design services. With the Company's high level of qualifications and industry permits, our engineering construction, equipment maintenance and repair and engineering design businesses cover most areas in northeast China with a relatively high market share.

The Company has an experienced senior management and professional technical team. Over 30% of all employees have work experience of more than 20 years in heat supply operations and 23% hold professional title certificates in the areas such as engineering, accounting and administration.

Honors and Awards

In May 2019, the Heating Engineering Design was awarded the "Little Giant Enterprises in Jilin Province Science and Technology" (吉林省科技小巨人企業) by the Department of Science and Technology of Jilin Province, Department of Industry and Information Technology of Jilin Province and Department of Finance of Jilin Province. In September 2019, it was awarded the "High-tech Enterprise" (高新技術企業) by the Department of Science and Technology of Jilin Province, Department of Finance of Jilin Province and Jilin Provincial Tax Service, State Taxation Administration. In December 2019, it was awarded the "Little Giant Enterprises in Changchun Science and Technology" (長春市科技小巨人企業) by the Changchun Science and Technology Bureau.

Technology and Research and Development

In March 2019, the Heating Engineering Design was awarded the invention patent of "Energy Storage Wall with Heating and Cooling Functions" (一種具有供暖和降溫功能的蓄能牆體) by the National Intellectual Property Administration.

In May 2019, the Group obtained the "Software Copyright" (軟件著作權) for its self-developed "Chuncheng Heating Smart Customer Service Management System" (春城熱力智能客服管理系統) from the National Copyright Administration of the PRC. In July 2019, the Group obtained the "Copyrights" (著作權) from the National Copyright Administration of the PRC for all of its management systems V1.0 in terms of equipment, technical information, vehicle, tool and special occupation. In September 2019, the Group obtained the "Software Copyrights" from the National Copyright Administration of the PRC for its "Chuncheng Heating Duty Scheduling System Software V1.0" (春城熱力值班調度系統軟件V1.0), "Chuncheng Heating Power Consumption Analysis and Evaluation System Software V1.0" (春城熱力能耗分析考核系統軟件V1.0) and "Chuncheng Heating Production Reporting System Software V1.0" (春城熱力生產報表系統軟件V1.0).

In December 2019, the Changre Electrical Apparatus obtained the "Computer Software Copyright Registration Certificates" (計算機軟件著作權登記證書) from the National Copyright Administration of the PRC for its "Changre Electrical Apparatus Personal Performance Appraisal System V1.0" (長熱電氣儀錶生產人員個人績效考核系統V1.0), "Chuncheng Heating Instrument Maintenance Management System V1.0" (春城熱力儀錶檢修管理系統V1.0), "Chuncheng Heating Instrument Inverter Maintenance Statistical Analysis System V1.0" (春城熱力儀錶變頻器檢修統計分析系統V1.0), "Chuncheng Heating Instrument Inverter Maintenance Management System V1.0" (春城熱力儀錶變頻器檢修管理系統V1.0).

FINANCIAL SUMMARY

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

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

Summary of Consolidated Statement of Financial Position

	As at 31 December			
	2019	2018	2017	2016
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Total non-current assets	**968,163**	1,028,460	1,366,909	1,250,231
Total current assets	**1,605,578**	1,187,799	1,290,190	1,245,839
Total current liabilities	**1,224,499**	1,178,551	1,649,596	1,386,105
Total assets less current liabilities	**1,349,242**	1,037,708	1,007,503	1,109,965
Total non-current liabilities	**508,792**	535,392	714,774	666,487
Net assets	**840,450**	502,316	292,729	443,478

Notes: The summary of the consolidated results and financial position of the Group for the year ended 31 December 2016, 2017 and 2018 are extracted from the prospectus of the Group dated 27 September 2019 (the "Prospectus").

No financial information of the Group for the year ended 31 December 2015 has been published.

I. INDUSTRY OVERVIEW

Centralized heating is the main method of heating in Northern China during the cold season (from 20 October of the current year to 6 April of the following year according to the heat supply system). The construction and development of municipal centralized heating is an effective way to develop the PRC's national economy and society to save energy, reduce environmental pollution and practice sustainable development. Rapid urbanization in the PRC resulted the continuous development of the urban gross floor area in Northern China, steadily increase in demand for heat supply and in government investment in construction of heating infrastructure. Growth in centralized heating area in the northern urban areas not only speeds up the development of the heating business, but also efficiently promotes the improvement of the construction, maintenance and design business.

Cogeneration is currently the heating method with the highest overall heat utilization efficiency. It is the basic means for northern cities to support heating service and an important measure to resolve the unreasonable structure of heating source, the imbalance between heat supply and demand and air pollution. The PRC promotes the development of clean heating with the principle of "adopting electricity, natural gas, coal or heat supply as appropriate". Due to the PRC's resource endowment of "being rich in coal but poor in gas and oil", heat supply from cogeneration will occupy the central position of clean heating in the future.

In recent years, the PRC has been active in implementing efficient use of clean energy and eliminating polluting and inefficient small coal-fired boilers. In 2018, the Jilin Provincial Government issued the "Implementation Plan of Jilin Provincial Government to carry out the Three-Year Action Plan for Winning the Blue Sky Defense War (《吉林省落實打贏藍天保衛戰三年行動計劃實施方案》), stipulating that the clean heating rate of the Jilin Province must exceed 42% and thermal coal must occupy over 55% of the total provincial coal consumption by 2020, and basically phasing out all coal-fired boilers of 10 tons or below in cities at county level or above by the end of 2020. The Changchun Municipal Government has been actively promoting the integration of the heat supply industry, eliminating over 50 small coal-fired boilers of 10 tons or below over the previous two years, continuously optimizing the urban heating system and effectively advancing the development of clean heating.

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 required that the clean heating rate in Northern China be raised to 70% by 2021 and emphasized the acceleration of the clean reform of coal-fired heating facilities, promoting the use of renewable energy for heating, eliminating the burning of bulk coal and speeding up the renovation of old heating pipelines. In response to the national environmental protection requirements, the Group accelerated the renovation of old heating pipelines, continuously optimized the smart heating network system platform and strived to create a new heating model of "smart technology + clean energy" driven by technological innovation and based on energy saving and environmental protection.

II. BUSINESS REVIEW

Despite the complex and ever-changing external environment and the increasingly competitive market environment in 2019, the Company adhered to the principle of quality and efficiency-focused and reform and innovation-driven development. The Company actively promoted clean heating development model and optimized the ecosystem of industry chain, aiming to become a more influential heat supply brand. During the reporting period, with the quality of its heating services steadily improving and the scale of its construction, maintenance and design services constantly increasing, the Company achieved a record high in its operating results.

(1) Heat Supply Business

Overview

As of the end of 2019, the Group was the largest heat service provider in Jilin Province. Heat supply is our core business, which has more than 20 years of operating history in Changchun. Since April 2018, the heat supply business of the Group has all adopted the clean heating model of heat procurement from cogeneration plants. Moreover, the adoption of smart heating network system allows us to conduct our heat supply business precisely and efficiently.

As at 31 December 2019, the Group's heat service area was approximately 39.5 million sq.m., representing an increase of approximately 1 million sq.m. from 38.5 million sq.m. in 2018. As at 31 December 2019, the Group had 320,333 heat supply users, representing an increase of 13,367 from 306,966 users in 2018. For the year ended 31 December 2019, the revenue of the Group from heat supply business amounted to RMB960.7 million, representing an increase of approximately RMB21.2 million, or 2.3%, from RMB939.5 million in 2018.

Customers

Our customers are residential and non-residential end-users located within our heat service area. The table below sets out a breakdown of number of customers and revenue contribution by residential end-users and non-residential end-users in terms of provision and distribution of heat as at the current year.

	As at/for the year ended 31 December			
	2019		2018	
	Number of customers	**% of revenue from provision and distribution of heat**	Number of customers	% of revenue from provision and distribution of heat
Residential end-users[1]	**285,146**	**66.2%**	270,130	66.5%
Non-residential end-users[2]	**35,187**	**33.8%**	36,836	33.5%
Total	**320,333**	**100%**	306,966	100.0%

Notes:

(1) The number of residential end-users refers to the number of households.

(2) Non-residential end-users include commercial end-users and other end-users which primarily include industrial end-users and underground parking space end-users.

Heat procurement

The Group's suppliers of heat procurement were local cogeneration plants, namely No. 2 Cogeneration Plant, No. 4 Cogeneration Plant and No. 5 Cogeneration Plant. Commencing from the heat supply period in October 2018, all of the Group's heat demand is satisfied by heat procured from local cogeneration plants. Before the heat supply period of 2019-2020, the heat procurement price was at RMB27.5/GJ (value-added tax (VAT) included) based on the benchmark rate approved by the national and local pricing bureaus and at a rate as agreed by both parties for procured volume that exceeds a certain agreed level.

According to the notice issued by Changchun Municipal Development and Reform Commission on 16 October 2019, starting from the heat supply period of 2019-2020, the ex-factory price of heat supply of the cogeneration enterprises has been adjusted to RMB34/GJ (9% VAT included), and the price mechanism negotiated between the heat generation enterprises and the heat supply enterprises has been cancelled. The voluntary announcement of the Company dated 1 November 2019 stated that based on the assessment made by the Board with reference to the information available, the Company expects that this price adjustment will not have a material impact on its operation and cost during the year.

Heat source

In 2019, the Company continued its operation of clean heating and provided heat supply service through cogeneration covering an area of 39.5 million sq.m. in Changchun. All heat of the Company was procured from three local cogeneration plants, and the distribution pipelines of the Company are the sole heat distribution pipelines connecting heat source from cogeneration plants with the urban area. Through the integrated heat distribution network and effective control under the smart heating network system, the heat efficiency and safety of the Company have been further improved.

The following table sets forth the breakdown of the usage of the Group's heat procurement:

	As at/for the year ended 31 December	
	2019	2018
Estimated heat procurement quota (GJ)[(1)]	**19,283,333**	18,290,000
Heat procurement quota transferred (GJ)[(2)]	**5,655,926**	5,825,614
Actual consumption (GJ)[(3)]	**14,180,965**	12,570,763
Total heat procured[(4)]	**19,836,891**	18,396,377
Utilization rate (%)[(5)]	**73.5%**	68.7%
Heat service area (million sq.m.)[(6)]	**39.5**	38.5

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) We transferred certain portion of procured heat to three other heat service providers. We charged heat transmission fees thereunder.

(3) Actual consumption of our heat procured represents the aggregate amount of actual supply and consumption data each month as recorded by the measuring equipment and reviewed and agreed by each of three local cogeneration plants and us.

(4) The total heat procured was the sum of heat procurement quota transferred and the actual consumption. Procurement of heat exceeding the estimated heat procurement quota is subject to supplemental agreements between the cogeneration plants and us. Starting from the heat supply period of 2019-2020, the ex-factory price of heat supply of the cogeneration enterprises has been adjusted to RMB34/GJ (9% VAT included), and the price mechanism negotiated between the heat generation enterprises and the heat supply enterprises has been cancelled.

(5) Utilization rate of heat procurement is calculated as to the actual consumption divided by estimated heat procurement quota.

(6) Gross floor areas covered by heat supply includes both the heat service area which we fully and partially charge for our heat fees.

Heat transmission

For the year ended 31 December 2019, approximately 5.3 million GJ of the heat procurement quota the Group obtained from the local cogeneration plants was transferred to three other heat service providers. We received a total heat transmission fee of RMB12.0 million, representing a decrease of 5% from that of last year. Heat supply procured from the local cogeneration plants is first used to satisfy our own needs of heat supply.

Smart heating network system

In 2019, the Company further upgraded its smart heating network system. The system is an integrated platform of operation, management and customer service of smart heating network based on big data analysis and integration of independent platforms, which is mainly divided into three levels:

(1) In 2019, through the usage of technologies such as cable communication, wireless communication and automatic control in heat exchange stations, the Group continued to strengthen its monitoring and control of heat sources, heat exchange stations, primary distribution pipelines, secondary distribution pipelines, hot water temperature and flowing volume collection points. The automation of production management and heating network tuning after the upgrade has further enhanced efficiency and management level of its heat supply business, thereby achieving the goal of balanced transmission and precise adjustment.

(2) On the basis of automating control, the production management module established on the smart heating network platform allows the Group to manage its heat distribution and the temperature of heat supplied to the users. With the aim of distributing heat precisely and improving the management of heating area, the production management module strengthens the closed-loop management of heat production adjustment based on SLA (service level agreement), which has further improved the service quality of heat production and developed the best strategy for managing heat supply and energy-saving operation.

(3) The establishment of a non-linear macro model of hierarchical heating network through big data analysis enables the coordinated control of heat production elements and achieved integrated heat balance of the whole network. The model further analyzes users' needs, satisfaction and other indicators to understand their deep-rooted needs and experience goals. On the basis of such analysis, the operations of production management and heating system are adjusted, thereby increasing management efficiency and enhancing the connection between operations and management and services.

Heat supply emergency repair

In 2019, the Group sent our professional senior technicians abroad to further improve their skills in professional emergency repair and under pressure leak sealing. They have also learnt to use the automated anti-corrosion coating detector to locate pipelines and the new thermal infrared camera to detect underground pipeline leakage, thereby significantly improving the accuracy and efficiency of emergency repair. The application of new technology and equipment effectively shortens the time for locating the leakage and emergency repair, lowers production costs and reduces economic loss. It also allows the Group to strictly implement emergency plans and guarantee that general emergency repairs can be completed within 12 hours while major emergency repairs can be completed within 24 hours.

(2) Construction, Maintenance and Design Services

The Group's construction, maintenance and design services cover the peripheral services business of the heat supply industry chain. Our main services include engineering construction, engineering maintenance, design services and electrical and instrument maintenance. These services mainly cover Northeast China. For the year ended 31 December 2019, revenue generated from the Group's construction, maintenance and design services amounted to RMB600.7 million, representing an increase of RMB100.1 million, or 20.0%, from RMB500.6 million in 2018.

1. Engineering construction

For the year ended 31 December 2019, revenue generated from engineering construction amounted to RMB366.4 million, representing an increase of RMB55.5 million, or 17.9%, from RMB310.9 million last year. This was mainly due to the addition of the Three Supplies and Property Management (三供一業) project in Inner Mongolia during the year.

In 2019, the engineering construction business mainly focused on the following aspects: 1) undertaking the second phase of renovation work of the Three Supplies and Property Management (三供一業) project of China Railway Shenyang Group* (瀋陽鐵路集團) and government-related construction projects to further generate revenue from the engineering construction business; 2) improving tendering and bidding management and material procurement management, strengthening internal control and risk prevention awareness and ensuring the operations are carried out in compliance with laws and regulations; 3) successfully passing the annual review of the "Engineering Construction Organization Quality Management System Certificate", "Environmental Management System Certificate" and "Occupational Health and Safety Management System Certificate", which further enhanced the core competitiveness of the Group.

2. Engineering maintenance

For the year ended 31 December 2019, revenue generated from engineering maintenance amounted to RMB220.8 million, representing an increase of RMB47.7 million, or 27.6%, from RMB173.1 million last year. This was mainly due to the revenue recognized in 2019 for undertaking the centralized heat supply project in Longjia of the metro company, the centralized heat supply project in Tumen and the renovation work of the heating and water supply systems for the Three Supplies and Property Management (三供一業) project of Road & Bridge International Co., Ltd.* (中交路橋公司) and Sinohydro Bureau 1 Co., Ltd.* (中國水利水電第一工程局有限公司) in 2019.

In 2019, the engineering maintenance business mainly focused on the following aspects: 1) undertaking the repair and maintenance work of the Group's equipment and facilities to ensure stable operation; 2) carrying out more than 10 kinds of user-friendly services including geothermal installation, geothermal cleaning and maintenance of water and heat distribution pipelines to further expand the service scope of its maintenance business; 3) strictly implementing internal control system and effectively controlling repair and maintenance costs.

3. Design services

For the year ended 31 December 2019, revenue generated from design services amounted to RMB9.7 million, representing a decrease of RMB6.4 million, or 39.8%, from RMB16.1 million last year. The decrease in revenue in 2019 was mainly due to most of the Three Supplies and Property Management design project had already been completed in 2018.

In 2019, the design services business mainly focused on the following aspects: 1) expanding engineering design and consultancy business inside and outside Jilin Province and strictly implementing design specifications and technical standards, thus achieving the annual operating goal; 2) increasing investment in scientific and technological innovation as well as research and development projects and obtaining 15 software copyrights and 1 invention patent, which helped enhance the Group's capabilities in scientific and technological research and development; 3) the Heating Engineering Design applying for and being approved as a "National High-tech Enterprise", "Little Giant Enterprises in Jilin Province Science and Technology" and "Little Giant Enterprises in Chuncheng Science and Technology", which enabled it to benefit from the tax reduction policy and effectively promoted the application of its research and development results into operation, laying a foundation for the high-quality development of the Group's design business.

(3) Safety Management

The Group paid close attention to safety by continuously enhancing safety management, maintaining equipment quality and improving intelligent management level to ensure safe and stable operation of each business. The Group actively promoted the standardization of production safety, applying for and passing the Second-Class Enterprise in Production Safety Standardization assessment conducted by State Administration of Work Safety in 2019. Through the optimization of operational procedures, elimination of potential safety hazards and unification of safety signs, the safety management level has been enhanced as a whole to ensure a stable safety environment of the Company. During the reporting period, there were no major safety accidents in the Group.

(4) Social Responsibility

In 2019, the Group actively responded to the national call, devoting to providing heat supply service for our 320 thousand heat supply customers (including residential and non-residential users located within our heat service area), effectively maintaining social stability.

The Group attaches great importance to environmental protection during heat supply operation and upholds the principle of sustainable development. The Group ensures our level of environmental protection is in compliance with national standards through strengthening the construction of environmental protection facilities and implementing measures in terms of reasonable resource utilization, energy conservation and waste management.

As a state-owned enterprise, the Group has also fulfilled its social responsibilities of local job creation and tax contribution.

III. FINANCIAL REVIEW

(1) Revenue

The Group's revenue increased by 8.4% to RMB1,561.4 million in 2019 as compared with RMB1,440.2 million in 2018, primarily due to the increase in the Group's heat supply business and construction, maintenance and design business. (i) Revenue of heat supply business increased by 2.3% to RMB960.7 million in 2019 as compared with RMB939.5 million in 2018, primarily due to the increase in heat supply area of the Group and the reduction in VAT rate for the heat supply industry during the period; (ii) Revenue of construction, maintenance and design business increased by 20.0% to RMB600.7 million in 2019 as compared with RMB500.6 million in 2018, primarily because the Group undertook the ongoing Three Supplies and Property Management project, which led to more projects undertaken by the Group in 2019 than 2018.

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

	2019 **RMB'000**	2018 RMB'000	Change Percentage
Heat supply, of which:			
– Provision and distribution of heat	**894,540**	875,399	2.2%
– Pipeline connection fee	**54,233**	51,522	5.3%
– Heat transmission	**11,951**	12,601	(5.2%)
Subtotal	**960,724**	939,522	2.3%
Construction, maintenance and design services, of which:			
– Engineering construction	**366,412**	310,928	17.8%
– Engineering maintenance	**220,774**	173,063	27.6%
– Design services	**9,743**	16,051	(39.3%)
– Others	**3,762**	595	532.3%
Subtotal	**600,691**	500,637	20.0%
Total	**1,561,415**	1,440,159	8.4%

(2) Other Income and Gains

In 2019, the Group's other income and gains increased by 25.2% to RMB26.3 million as compared with RMB21.0 million in 2018, primarily due to (i) the government grants for small boiler rooms recognized as other income during the year of RMB16.9 million, representing an increase of 45.7% from RMB11.6 million in 2018; (ii) the increase in bank deposits as a result of successful financing from the Listing and an increase in the heat fee refund during the year, thereby receiving an interest income from bank deposits of RMB8.5 million, representing an increase of 57.4% from RMB5.4 million in 2018; (iii) no gains on financial assets at fair value through profit or loss recognised as there was no investment in financial assets at fair value during the year, representing a decrease of 100% from RMB2.3 million in 2018.

(3) Cost of Sales

In 2019, the Group's cost of sales increased by 4.8% to RMB1,274.2 million as compared with RMB1,215.5 million in 2018.

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

	2019 RMB'000	2018 RMB'000	Change percentage
Cost of sales by business segment			
Heat supply	**761,032**	788,576	(3.5%)
Construction, maintenance and design services	**513,214**	426,909	20.2%
Total	**1,274,246**	1,215,485	4.8%

Heat supply costs

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

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

	2019 RMB'000	2018 RMB'000	Change percentage
Cost of sales for heat supply			
Heat procurement cost	**421,103**	312,820	34.6%
Coal	**–**	114,832	(100.0%)
Maintenance and repair	**70,194**	61,315	14.5%
Labor	**84,820**	94,123	(9.9%)
Depreciation and amortization	**86,484**	85,376	1.3%
Utility	**53,590**	54,788	(2.2%)
Input VAT transferred out	**30,246**	40,362	(25.1%)
Others	**14,595**	24,960	(41.5%)
Total	**761,032**	788,576	(3.5%)

In 2019, the Group's heat procurement cost increased by 34.6% to RMB421.1 million as compared with RMB312.8 million in 2018, primarily due to (i) an increase in the heat supply area and the costs of heat procurement from cogeneration plants in 2019. The rise in heat procurement cost was because the heat supply for all areas originally produced by coal-fired boilers was replaced by heat procurement from cogeneration plants and the heat supply area increased. Moreover, since the second half of 2019, the unit price of heat (tax included) of No. 2 Cogeneration Plant and No. 4 Cogeneration Plant has raised to RMB34/GJ from RMB27.5/GJ with an increase of RMB6.5/GJ; (ii) as the Group has fully ceased heat production by coal-fired boilers and relies solely on heat procured from local cogeneration plants, the Group has no longer recorded coal costs since October 2018 and had nil coal costs in 2019.

In 2019, the Group's maintenance and repair costs increased by 14.5% to RMB70.2 million as compared with RMB61.3 million in 2018, primarily due to the additional RMB8.3 million for No. 5 Cogeneration Plant's compensator replacement project in 2019.

In 2019, the Group's labor cost decreased by 9.9% to RMB84.8 million as compared with RMB94.1 million in 2018, primarily because (i) the reduction in employees responsible for the fuel management facility which has ceased operation as the Company has fully adopted the operation of heat supply procured from cogeneration plant since October 2018; (ii) the decrease in provisions for social insurance (e.g. from 20% to 16% for pension insurance program).

In 2019, the Group's input VAT transferred out decreased by 25.1% to RMB30.2 million as compared with RMB40.4 million in 2018, primarily due to the decrease in undivided input VAT during the year as a result of a reduction in tax rates and decrease in the proportion of input VAT transferred out.

Costs of construction, maintenance and design services

Cost of sales for construction, maintenance and design services primarily consists of cost of materials, labor, machinery and other costs. In 2019, the cost of sales for construction, maintenance and design services increased by 20.2% to RMB513.2 million as compared with RMB426.9 million in 2018. The increase in cost of this business was generally in line with the increase in revenue.

(4) Gross Profit and Gross Profit Margin

In 2019, the Group's gross profit increased by 27.8% to RMB287.2 million as compared with RMB224.7 million in 2018. In 2019, the Group's gross profit margin increased by 2.8% to 18.4% as compared with 15.6% in 2018. This was mainly due to the replacement of all heat supply produced by coal-fired boilers by heat source from cogeneration plants and the increase in construction projects, thus leading to a rise in gross profit and gross profit margin.

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

	2019 **RMB'000**	2018 RMB'000
Revenue	**1,561,415**	1,440,159
Cost of sales	**1,274,246**	1,215,485
Gross profit	**287,169**	224,674
Gross profit margin	**18.4%**	15.6%

(5) Selling Expenses

In 2019, the Group's selling expenses increased by 100% to RMB2.4 million from nil in 2018, primarily due to the advertising expenses of the Group during the year for promoting its business.

(6) Administrative Expenses

In 2019, the Group's administrative expenses increased by 43.5% to RMB103.9 million as compared with RMB72.4 million in 2018, primarily due to (i) the addition of management personnel of the Company and (ii) the rise in office expenses due to the Group's Listing in Hong Kong.

(7) Finance Costs

In 2019, the Group's finance costs decreased by 37.2% to RMB7.1 million as compared with RMB11.3 million in 2018, primarily due to (i) the loan repayment of the Group in 2019; (ii) the exchange loss arising from the change in exchange rate at various points in time for funds raised in Hong Kong dollars.

(8) Share of Profits and Losses of a Joint Venture

In 2019, the Company's share of profits of FAW Sihuan, a joint venture of the Group, decreased by 80.0% to RMB0.3 million as compared with RMB1.5 million in 2018, mainly due to in 2019, the electricity sales business of Hengxin Electricity, a subsidiary of FAW Sihuan, shrank due to the relocation policy in the region in which it operates, resulting in a decrease in its operating profit.

(9) Income Tax Expense

In 2019, the Group's income tax expense increased by 26.5% to RMB46.3 million as compared with RMB36.6 million in 2018, mainly due to the increase in taxable income as calculated in accordance with the Enterprise Income Tax Law and its relevant regulations.

(10) Profit for the Year

In 2019, the Group's profit increased by 30.5% to RMB134.0 million as compared with RMB102.7 million in 2018, mainly due to (i) the increase in gross profit and gross profit margin for heat supply business; (ii) the increase in revenue scale despite of similar gross profit margin compared to last year for construction, maintenance and design services during the year.

(11) Profit Attributable to Owners of the Company

In 2019, the Company's profit attributable to owners of the Company increased by 30.5% to RMB134.0 million as compared with RMB102.7 million in 2018. As all the subsidiaries of the Group are wholly-owned by the Company, the profit attributable to owners of the Company was consistent with that of profit for the year.

(12) Liquidity and Capital Resources

The Group's cash and cash equivalents increased by 95.0% to RMB699.9 million as at 31 December 2019 as compared with the balance of RMB358.9 million as at 31 December 2018, primarily due to (i) the increase in operating revenue of the Company by 8.4%, the net cash inflow from operating activities of RMB274.8 million; (ii) the proceeds from the Listing of RMB248.0 million in the year. The main sources of the Group's operating capital include: (i) unutilized banking facilities of approximately RMB489.3 million as at 31 December 2019; (ii) cash and cash equivalents of approximately RMB699.9 million.

As at 31 December 2019, the Group's borrowings decreased by 90.1% to RMB10.7 million as compared with RMB108.0 million as at 31 December 2018, of which RMB10.7 million was short-term borrowings and there were no long-term borrowings.

(13) Capital Expenditure

The Group's capital expenditure decreased by 74.3% to RMB56.5 million in 2019 as compared with RMB219.7 million in 2018. The decrease of capital expenditure mainly comprises of newly built pipeline network in 2019 and reduction in expenses for the purchase of equipment compared to 2018.

(14) Capital Structure

As at 31 December 2019, the equity attributable to owners of the Company increased by RMB338.1 million to RMB840.5 million compared to 31 December 2018, primarily because (i) 116,700,000 shares are newly issued, which increased the share capital by RMB116.7 million and the share premium by RMB87.5 million; (ii) factors like annual comprehensive income increased the retained earnings to RMB134.0 million.

The distribution of the proposed 2019 dividend is subject to the approval by the shareholders of the Company at the 2019 annual general meeting.

As at 31 December 2019, 466,700,000 shares were issued by the Group, including 116,700,000 H Shares. The total market capitalization and H Share market capitalization of the Company was HK$1,092.1 million and HK$273.1 million respectively (calculated based on the closing price of HK$2.34 per share of the Company on the Hong Kong Stock Exchange on 31 December 2019).

IV. RISK FACTORS AND RISK MANAGEMENT

(1) Industry Risk

Heating industry to a certain extent is affected by industrial policies of the PRC. Aspects such as heat procurement price, heat rate and construction fee are subject to policy regulation and supervision of the government. In addition, the pricing of the Company's engineering construction, design and maintenance services are also regulated by the government. Any changes to relevant laws and regulations may have an impact on the operation of the Company.

The Group will tap into its potential, tighten its cost control measures, enhance the level of intelligent technology as well as consolidate and strengthen its competitiveness to be prepared for any changes in the heating industry.

(2) Policy Risk

According to the Provisional Regulations on VAT of the PRC (《中華人民共和國增值税暫行條例》) promulgated by the State Council in 2017 and the Extension of Notice relating to Preferential Policies for VAT, Real Estate Tax and Urban Land Use Tax for Heat Supply Enterprises (《關於延續供熱企業增值税、房產税、城鎮土地使用税優惠政策的通知》) released by the Ministry of Finance and the State Administration of Taxation in 2019, VAT, real estate tax, land use tax and urban land use tax for heat supply enterprises in "Three North" regions (including Jilin Province) enjoy preferential policies. Any changes to the relevant policies will affect the Company's financial condition. In addition, the Group strictly complies with the national and local environmental protection regulations in the PRC. Should the PRC impose more stringent standards regarding environmental protection policies in the future, the Group may need to upgrade existing technologies and facilities to meet the regulatory requirements, thus incur additional costs.

The Group will continuously keep track of relevant policy developments, analyze the impact of any changes thereof and make use of the policies reasonably.

(3) Climate Risk

Heat supply is the Group's core business and is subject to climatic conditions during the heat supply period. Higher level of heat consumption is required for the purpose of maintaining a desired in-room temperature in colder heat supply period as the outdoor temperature is generally lower. Higher heat consumption in turn increases the demand for heat procurement from cogeneration plants, which then increases the overall costs in heat supply, and vice versa.

In response to the risk of climate change, the Group adopts an intelligent remote control system to balance heat distribution.

(4) Exchange Risk

Proceeds from the Listing of the Group are denominated in Hong Kong dollars while the actual place of operation is in mainland China. The proceeds may be settled according to the Group's intended use and the change in the exchange rate. Any exchange rates fluctuations may affect the exchange gains and losses of the Group and be reflected in the changes in finance costs on the accounts.

Currently, the Group does not use any derivative financial instruments to hedge its foreign currency risk.

V. OTHER SIGNIFICANT EVENTS

(1) Significant Investments

The Group did not have any significant investments for the year ended 31 December 2019.

(2) Material Acquisitions and Disposals

The Group did not have any material acquisitions and disposals for the year ended 31 December 2019.

(3) Capital Commitment and Contingent Liabilities

The Group did not have any significant capital commitments and contingent liabilities as at 31 December 2019.

(4) Charge on Assets

There was no material charge on the Group's assets as at 31 December 2019.

(5) Employees and Remuneration Policies

1. Employee distribution

As at 31 December 2019, the Group had 1,081 employees. Based on the companies in which they served, there were 886, 52, 50, 37, 35, 18 and 3 employees in the Company, Changre Pipelines, Changchun Runfeng, Changre Maintenance, Heating Engineering Design, Changre Electrical Apparatus and Biomass Power respectively.

2. Remuneration policies

In 2019, the Group maintained its existing employees' remuneration package which comprises basic salary, position salary and monthly and yearly performance incentives in accordance with the Measures for Employees' Wage Management (《勞動工資管理辦法》). The determination of remuneration based on both position value and performance appraisals helps motivate employees' contribution and dedication to the Group.

3. Training programmes

To further strengthen the middle management 's understanding of the corporate management system, improve team building and communication skills and enhance productivity, the Group organized 5 management and operation trainings in 2019 with a total of 526 participants. The Group has organized a series of programmes in relation to the current development phase of the Company including "From Technology to Management" (《從技術走向管理》), "Corporate Operations and Interpretation of Financial Statements" (《企業經營與財務報表解讀》) and "Public Offering and Legal Compliance" (《上市資本路徑與法律規範》) to lay a foundation for the Company's new development path towards marketization and capitalization by providing required knowledge through targeted trainings for employees.

In order to enhance the actual operational level of its front-line professional technical team and keep up with the need for applying information, intelligent and modern equipment, the Group has provided operational skill trainings of front-line production to all junior technical workers as scheduled which focused on the integration of traditional actual operations and application of new technologies. The Group also constantly held technical skills competitions with an aim to enhance employee's skills by way of competition instead of practice. A total of 437 front-line technical workers in respect of water and heat supply, welding and electricity took part in the competitions in 2019. The competitions required all sorts of skills ranging from professional and theoretical knowledge to actual operations so as to achieve collective improvement and development.

4. Employee relations and social insurance management

All employees' relations management 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. On 5 November 2019, the Group had passed the on-site special audit conducted by Zhongpeng Certified Public Accountants Firm Co., Ltd. Jilin Branch* (中鵬會計事務所有限公司吉林分所), which was commissioned by the Social Medical Insurance Bureau of Changchun City* (長春市社會醫療保險局).

The Group has implemented strong employee relations management and welfare and social insurance management, and maintained an overall harmonious and stable labor relations with its employees.

(6) Events after the Reporting Period

There were no other important events or transactions affecting the Group from 31 December 2019 to the date of this annual report.

VI. FUTURE PROSPECTS

The continuous advancement of urbanization in the PRC provides greater development opportunities for the centralized heating market. Meanwhile, the application and promotion of new energy heating technology, scientific and technological innovation and integration of intelligent features have revitalized the heating industry and created new opportunities for the development of the Group's heat supply and other business segments. In 2020, the Group will continue to develop its heat supply business and focus on scientific and technological innovation, technological upgrade and clean energy development. The Group will also strive to expand its assets scale and leverage its advantages in the industrial chain to consolidate its leading position in the industry and achieve outstanding results for the sustainable development of the Company.

(1) Prospects of the Heat Supply Business

The PRC government is proactively carrying out reform of the heat supply system. Large local enterprises are encouraged to facilitate the consolidation of the heat supply industry, actively promote the development of clean heating, eliminate obsolete production capacity and look for higher quality development. As the largest heat supply company in Jilin Province, the Group will make full use of the service coverage in its heat supply business, facilitate industrial consolidation and expand the scale of its core businesses in order to further secure its leading position in the industry.

Meanwhile, the Group will increase its investment in scientific and technological innovation as well as technology research and development, encourage in-house research and development projects and apply such results into its business operation. With the use of technologies such as intelligent integrated network, 5G transmission and big data analysis, the Group will further expand the functions of its smart heating network system to be efficiently applied to each sector of operations including heat production and operation adjustment. The Group will also strive to lower its production and operation costs and increase heat utilization efficiency, thereby boosting its business performance.

In addition, we will exert efforts in the application and promotion of new energy heating technologies. Through in-depth analysis of the cost curve of new energy heating technology, the Group will develop the most cost-effective new energy heating model based on local conditions to create new profit growth points for the Company while implementing clean production to "win the blue sky defense war".

(2) Prospects of the Construction, Maintenance and Design Business

In recent years, the PRC government has been continuously increasing the construction of heating infrastructure and optimizing the business environment for centralized heating in northern China. This provides excellent development potential for the Group's construction, maintenance and design business and contributed to the year-on-year growth of our operation results. In 2020, we plan to further enhance the service quality and standard of our construction, maintenance and design business. On the basis of our existing business, we plan to increase our professional qualifications and business scale, build our brand reputation and fully exert our competitive edge in the industrial chain of heating service to expand market share, laying a solid foundation for the business development of our heat supply business.

The Group will also improve its corporate governance structure, strengthen internal control and management and raise risk prevention awareness. We will also capture every business development opportunity and endeavor to raise our core competitiveness so as to reward our Shareholders with excellent results.

REPORT OF THE DIRECTORS

The Board of the Company now presents the Group's annual report for the year of 2019 (the "**Annual Report**") and the audited consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2019 (the "**Financial Statements**") to Shareholders.

CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The Company was incorporated in the PRC on 23 October 2017 and is currently a joint stock company with limited liability. The H Shares of the Company were listed on the Main Board of the Stock Exchange on 24 October 2019. Basic information of the Company is set out in "Corporate Information" section on pages 8 to 10 of this Annual Report.

PRINCIPAL BUSINESS

The Group is the largest heat service provider in Jilin Province. Heat supply is our core business, which has more than 20 years of operating history in Changchun. We also offer construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. Details of the principal subsidiaries of the Company are set out in Note 1 to the Financial Statements.

RESULTS

The audited results of operations of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive Income on page 70 of this Annual Report. The financial position of the Group and of the Company as at 31 December 2019 is set out in the consolidated statement of financial position on pages 71 to 72 and in Note 38 to the financial statements of this Annual Report. The consolidated cash flows of the Group for the year ended 31 December 2019 are set out in the consolidated statement of cash flows on page 75 of this Annual Report.

Discussion and analysis about the operating performance and significant elements affecting the results of operations and financial condition of the Group during the year are set out in "Management Discussion and Analysis" section on pages 12 to 26 of this Annual Report.

BUSINESS REVIEW

During the reporting period, the Group kept heat supply as the principal business, while also offered construction, maintenance and design services which include (i) engineering construction, (ii) engineering maintenance, (iii) design services, and (iv) electrical and instrument maintenance and repair. A review of the business of the Group during the year and a discussion on the Group's future business development are set out on pages 13 to 18 and page 26 of this Annual Report. A description of possible main risks and uncertainties that the Group may face is set out on pages 23 to 24 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is set out on pages 19 to 23 of this Annual Report. To the knowledge of the Directors, there has not been any important event affecting the Group since the end of the financial year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

SHARE CAPITAL

As of 31 December 2019, the total share capital of the Company was 466,700,000 shares, divided into 350,000,000 Domestic Shares and 116,700,000 H Shares, with par value of RMB1.00 each. After the Listing of the H Shares on the Main Board of the Stock Exchange, the Company did not issue any new shares in exchange for cash.

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

Neither the Company nor any of its subsidiary purchased, sold or redeemed any of the Company's listed securities or redeemable securities during the year ended 31 December 2019.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

For the year ended 31 December 2019, none of convertible securities, options, warrants and other similar rights were issued and granted by the Company or any of its subsidiaries, nor any conversion rights or subscription rights were exercised pursuant to any convertible securities, options, warrants and other similar rights issued and granted by the Company or any of its subsidiaries at any time.

DEBENTURES IN ISSUE

Neither the Company nor any of its subsidiaries issued any debentures during the year ended 31 December 2019.

USE OF PROCEEDS FROM LISTING

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

The Company will utilize the IPO Proceeds for the purposes which are consistent with those set out in the Prospectus. The net proceeds from the public offering amounted to HK$220.5 million, among which:

1) approximately HK$90.4 million (equivalent to approximately RMB81.8 million), representing approximately 41.0% of the net proceeds from the Global Offering, has not been utilized since the date of obtaining the IPO Proceeds and up to 31 December 2019. The remaining HK$90.4 million will be used for further increasing the level of automation in our heat supply business in the next three years by enhancing our smart heating network system to achieve a more stable, efficient and technologically advanced heat supply. Most of the net proceeds earmarked for this category will be used for upgrading of our system, purchasing relevant equipment and sensors and installation of the equipment in the heat exchange stations and end-users' properties.

2) approximately HK$90.4 million (equivalent to approximately RMB81.8 million), representing approximately 41.0% of the net proceeds from the Global Offering, has not been utilized since the date of obtaining the IPO Proceeds and up to 31 December 2019. The remaining HK$90.4 million will be used for upgrading and replacement of existing primary distribution pipelines and heat supply facilities in the next three years to enhance operational efficiency of our heat distribution network.

3) approximately HK$28.7 million (equivalent to approximately RMB25.9 million), representing approximately 13.0% of the net proceeds from the Global Offering. Since the date of obtaining the IPO Proceeds and up to 31 December 2019, HK$24.0 million of which has been used in our heat service area expansion to grow our heat supply business in the next three years, including necessary construction of primary distribution pipelines and heat supply facilities required thereunder. The remaining HK$4.7 million will be used for the construction of heat supply facilities for the expansion of other heat supply business.

4) approximately HK$11.0 million (equivalent to approximately RMB10.0 million), representing approximately 5.0% of the net proceeds from the Global Offering, has not been utilized since the date of obtaining the IPO Proceeds and up to 31 December 2019. The remaining HK$11.0 million will be used for be used for potential acquisitions of heat service companies in the next three years to complement our existing heat supply operations. We plan to acquire one or two heat service companies which have a profit margin of not less than 10% with a payback period of five to eight years (not exceeding ten years in principle). We will prioritize the acquisition opportunities in and nearby Changchun over other cities in Jilin Province and the northern China.

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

EQUITY-LINKED AGREEMENT

For the year ended 31 December 2019, the Company did not enter into any equity-linked agreement and there was no equity-linked agreement.

PERMITTED INDEMNITY

The Company has maintained appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance. No permitted indemnity was made by the Company for the year ended 31 December 2019 and no permitted indemnity was in force as at the date of this annual report.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER

The Controlling Shareholder of the Company did not pledge any of its shares in the Company to secure the Company's debts or to secure guarantees or other support of the Company's obligations for the year ended 31 December 2019.

CHARGES ON THE GROUP'S ASSETS

For the year ended 31 December 2019, there were no charges on the Group's assets.

LOAN ARRANGEMENTS GRANTED BY THE COMPANY TO ENTITIES

For the year ended 31 December 2019, the Group did not grant any loan to any entity which is subject to disclosure requirements under Rule 13.13 of the Listing Rules.

Loan Agreements or Financial Assistance of the Company

The Company has no affiliated companies and the Company did not provide any financial assistance nor guarantee to its affiliated companies for the year ended 31 December 2019, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company did not enter into any loan agreement with covenants relating to specific responsibility of its Controlling Shareholders nor breach the terms of any loan agreements for the year ended 31 December 2019.

SHARE OPTION SCHEME

As of 31 December 2019, the Company had not implemented any share option scheme.

PRE-EMPTIVE RIGHTS

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

DIVIDEND POLICY

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

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

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

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

FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company at the AGM to be held on 27 May 2020, for their consideration and approval of the payment of a final dividend of RMB0.17 per share (tax inclusive) for the year ended 31 December 2019 (the "**2019 Final Dividend**") payable to the shareholders of the Company, whose names appear on the register of members of the Company on 8 June 2020, in an aggregate amount of approximately RMB79.34 million. The 2019 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 2019 Final Dividend are expected to be paid on or around 7 July 2020.

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税法》) 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税法實施條例》) implemented in 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% when distributing the 2019 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 2020.

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

The Company will determine the 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 2020 (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 Monday, 1 June 2020. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H Share shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaty notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

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

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

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

The Company was not aware of any shareholders who had waived or agreed to waive any dividend arrangement for the year ended 31 December 2019.

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 2019 Final Dividend, the register of members of the Company will be closed from 25 April 2020 to 27 May 2020 (both days inclusive) and from 2 June 2020 to 8 June 2020 (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 24 April 2020.

In order to be entitled to the proposed 2019 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 the address abovementioned for registration not later than 4:30 p.m. on 1 June 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 13 to the Financial Statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 38 to the financial statements and in the consolidated statement of changes in equity of this Annual Report, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to approximately RMB175.9 million (as at 31 December 2018: RMB79.9 million).

DONATIONS

For the year ended 31 December 2019, except for the office desks of RMB52,000 (2018: nil) donated by Changre Maintenance, a subsidiary of the Group, to the Second Senior High School of Tumen City, the Group did not make external donations.

BANK BORROWINGS AND OTHER BORROWINGS

As at 31 December 2019, the bank and other borrowings of the Group amounted to RMB10.7 million (as at 31 December 2018: RMB108.0 million).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Part of the information of the Directors, Supervisors and Senior Management of the Company for the year ended 31 December 2019 and as the date of this report is illustrated below.

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

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out on pages 55 to 63 of this Annual Report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

The emoluments of our Directors and Supervisors are paid in the form of fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement scheme contributions. The details of the remuneration of the Directors and Supervisors of the Company are set out in Note 8 to the Financial Statements.

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

For the year ended 31 December 2019, the emoluments of the senior managements of the Company (other than executive directors) are set out as below:

Remuneration(HK$)	Number
Nil to 1,000,000	7

The details of the emoluments of our directors and the highest paid individual of the Company are set out in Note 8 and 9 to the Financial Statements.

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

After the end of the year of 2019 or at any time during the year, there were no transaction, arrangement or contracts of significance subsisting in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which any Director or Supervisor or any entity connected with the Director or Supervisor had a material interest directly or indirectly.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year of 2019, save as disclosed below, none of the Directors or their associates had any competing interests in any business that constitutes or may constitute direct or indirect competition with the Company's businesses:

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

Notes:

(1) Mr. LIU Changchun has been the director of Changchun Heating Group since 17 March 2016 and has been the chairman of the board of Changchun Heating Group since 5 September 2016.

(2) Mr. YANG Zhongshi has been the director of Changchun Heating Group since 17 August 2017.

(3) Mr. SHI Mingjun has been the non-executive director of Datang JV since 9 June 2017.

(4) Mr. LIU Changchun has been the chairman of the board of Changchun Yatai Heating Co., Ltd. since 31 December 2019. Mr. YANG Zhongshi and Mr. SHI Mingjun have been the director of Changchun Yatai Heating Co., Ltd. since 31 December 2019.

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

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

As at 31 December 2019, no Director, Supervisor or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests or short positions in accordance with such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES

As at 31 December 2019, to the knowledge of the Directors, the persons (other than a Director, Supervisor or chief executive of the Company) who have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholders	Types of shares	Capacity	Number of shares/ underlying shares held (share) (Note 6)	Percentage of relevant class of share capital (%)	Percentage of total Share capital (%)
Changchun Heating (Group) Co., Ltd.	Domestic shares	Beneficial owner	325,500,000(L)	93.00(L)	69.75
Changchun State-owned Capital Investment Operation (Group) Co., Ltd.	Domestic shares	Beneficial owner	24,500,000(L)	7.00(L)	5.25
China Foreign Economic and Trade Trust Co., Ltd. (Note 1)	H Shares	Trustee	28,120,000(L)	24.10(L)	6.03
Orient Fund Management Co.,Ltd. (Note 2)	H Shares	Trustee	18,600,000(L)	15.94(L)	3.99
SDIC Taikang Trust Co., Ltd. (Note 3)	H Shares	Trustee	14,300,000(L)	12.25(L)	3.06
Cititrust Private Trust (Cayman) Limited (Note 4)	H Shares	Interest of a controlled corporation	14,700,000(L)	12.60(L)	3.15
Fantasy Races Limited (Note 4)	H Shares	Interest of a controlled corporation	14,700,000(L)	12.60(L)	3.15
Harvest Well Holdings Limited (Note 4)	H Shares	Interest of a controlled corporation	14,700,000(L)	12.60(L)	3.15
Joywise Holdings Limited (Note 4)	H Shares	Interest of a controlled corporation	14,700,000(L)	12.60(L)	3.15
Ming Fai International Limited (Note 4)	H Shares	Interest of a controlled corporation	14,700,000(L)	12.60(L)	3.15
Sunshine 100 China Holdings Ltd. (Note 4)	H Shares	Interest of a controlled corporation	14,700,000(L)	12.60(L)	3.15
HE Libo (Note 5)	H Shares	Beneficial owner	6,000,000(L)	5.14(L)	1.29
WANG Fujiang (Note 5)	H Shares	Beneficial owner	6,000,000(L)	5.14(L)	1.29

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. Orient Fund Management Co.,Ltd. is a private trustee.

3. SDIC Taikang Trust Co., Ltd. is the trustee of SDIC Taikang Trust – Ruijin No. 8 QDII Single Fund Trust.

4. Sunshine 100 China Holdings Ltd. Limited is interested in 14,700,000 H Shares. Sunshine 100 China Holdings Ltd is owned as to 66.11% by Joywise Holdings Limited; Joywise Holdings Limited are owned as to 60% and 40% by Harvest Well Holdings Limited and Ming Fai International Limited, respectively; each of Harvest Well Holdings Limited and Ming Fai International Limited is owned as to 72.4% by Fantasy Races Limited; and Fantasy Races Limited is owned as to 100% by Cititrust Private Trust (Cayman) Limited. As such, by virtue of the SFO, Joywise Holdings Limited, Harvest Well Holdings Limited, Ming Fai International Limited and Fantasy Races Limited are deemed to be interested in the H Shares held by Sunshine 100 China Holdings Ltd.

5. He Libo and Wang Fujiang are spouses, each of whom holds 3,000,000 shares as beneficial owners. Therefore, according to the Securities and Futures Ordinance, He Libo is considered to be interested in the H Shares held by Wang Fujiang, that is, a total of 6,000,000 shares, or vice versa.

6. The Letter "L" denotes the relevant person's long position in such Shares.

MANAGEMENT CONTRACT

No contract concerning the management and administration of all or any substantial part of our business was entered into by the Company or existed in 2019.

CONTRACT OF SIGNIFICANCE

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

CONNECTED TRANSACTIONS

The Group did not conduct any non-exempt one-off connected transactions during the year ended 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS

The Company (for itself and on behalf of its subsidiaries) has conducted two non-exempt continuing connected transactions with Controlling Shareholder and its subsidiary.

Connected transactions under	Connected persons	Annual caps for 2019 RMB million	Actual transaction value in 2019 RMB million
Construction Framework Agreement	Changchun Heating Group	**38.8**	**37.5**
Pipes Supply Agreement	Jilin Province New Model Pipes Co., Ltd	**20.0**	**17.5**

Construction Framework Agreement

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

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

For the years ended 31 December 2019, 2020 and 2021, the annual cap for total fees received from the Controlling Shareholder Group in respect of the transactions contemplated under the Construction Framework Agreement is RMB38.8 million, RMB30.8 million and RMB21.8 million, respectively.

Pipes Supply Agreement

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

For the years ended 31 December 2019, 2020 and 2021, the annual cap for total fees paid by the Group to Jillin Province New Model Pipes Co., Ltd. in respect of the transactions contemplated under the Pipes Supply Agreement is RMB20.0 million, RMB20.0 million and RMB20.0 million, respectively.

Save as disclosed above, none of the transactions disclosed as related party transactions in Note 33 to the Financial Statement is a connected transaction or a continuing connected transaction for the Company as defined under the Listing Rules nor are they connected transactions or continuing connected transactions for the Company exempt from the reporting requirements under the Listing Rules. The Company has complied with the disclosure requirements governing connected transactions under the Listing Rules.

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

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

(1) carried out in the ordinary course of business of the Group;

(2) made on normal or better commercial terms; and

(3) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Company's Shareholders as a whole.

Auditor's Confirmation

The auditors of the Company have performed the relevant assurance procedures regarding the above continuing connected transactions, and confirmed by way of a letter to the Board of Directors that for the year ended 31 December 2019 that these transactions:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

(3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value as set by the Company.

Save as disclosed above, the Directors confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with regard to the above mentioned connected transactions.

COMPLIANCE WITH THE NON-COMPETITION DEED

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

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the total purchases from the five largest suppliers of the Company accounted for 36.8% of the total purchases during the year. The purchase from the largest supplier accounted for 11.2% of the total volume of purchased during the year.

For the year ended 31 December 2019, the total sales to the five largest customers of the Company accounted for 33.5% of the total sales during the year. The sales to the largest customer accounted for 18.8% of the total sales during the year.

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complies with code provisions as set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules for the period starting from the date of listing on 24 October 2019 to 31 December 2019. Please refer to the section "Corporate Governance Report" in this Annual Report for details.

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

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

PUBLIC FLOAT

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

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2019, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's 2019 annual results and the Financial Statements for the year ended 31 December 2019 prepared in accordance with the IFRSs.

AUDITOR

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2019. In view that Ernst & Young is familiar with the environment where the Company operates, is concerned about the Company's internal control systems and implementation thereof, and has been fully conscious of risks and highly independent, the Company will propose a resolution for approval by the shareholders at the upcoming annual general meeting to re-appoint Ernst & Young as the auditor of the Company for the year ended 2020.

FINANCIAL SUMMARY

Summary of results of operation and the assets and liabilities of the Group for the last four financial years are set out on page 11 of this annual report. The financial summary does not constitute part of the audited consolidated Financial Statements of the Group.

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

Jilin, the PRC
30 March 2020

REPORT OF THE SUPERVISORY COMMITTEE

In 2019, all members in the Supervisory Committee, in strictly compliance with the Company Law of the PRC and other laws, regulations, rules and directives and the relevant provisions of the Articles of Association, the Rules of Procedure of the Supervisory Committee and the Listing Rules, had been performing its supervisory duties on the Directors and senior management's fulfilling of their respective responsibilities in the Company, aiming at guarding the long-term benefits of the Company and the interests of all of our Shareholders. We hereby report the main works we have done during the reporting period as follows:

I. Meetings of the Committee of Supervisors

The Supervisory Committee held two meetings in 2019. At the second meeting of the first session of the Supervisory Committee held on 2 August 2019, the Supervisory Committee reviewed and approved the proposal concerning the review of the revised Articles of Association of Jilin Province Chuncheng Heating Company Limited; at the third meeting of the first session of the Supervisory Committee held on 20 December 2019, the Committee reviewed and approved the proposal concerning 2019 Internal Control Evaluation Report of Jilin Province Chuncheng Heating Company Limited, Whistleblowing Policy of Jilin Province Chuncheng Heating Company Limited and Corporate Governance Policy of Jilin Province Chuncheng Heating Company Limited and related proposals. The convening of the meetings, the execution of the resolutions and the exercise of the supervisory rights were in compliance with the relevant requirements of the Company Law, Articles of Association and Rules of Procedure for the Committee of Supervisors.

II. Present At/Attend Major Meetings

In 2019, the Supervisors presented three general meeting and attended seven Board Meetings. By attending those meetings, the Supervisors not only understood the operation and management of the Company, but also actively participated in the review and discussion of proposals to provide opinions and suggestions, and effectively supervised procedures for convening these meetings, and the discussion of subjects in the meetings.

III. Routine Examination and Research

In 2019, the Supervisory Committee followed closely on the operation of the Company to ensure internal operation of the Company is always in compliance with the related systems and regulations of the Listing Rules.

IV. Independent Opinion and Special Explanation

The Supervisory Committee has mainly conducted the following works:

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

2. By communicating with the accounting firm in charge of providing audit and review service to the Company, the Supervisory Committee reviewed Financial Statements of the Company, considered periodical reports of the Company and the audit report submitted by accounting firm, and periodically attended to the report by internal audit department of the Company on the conduct of internal audit work, and carried our effective supervision and inspection on the financial management and operation of the Company. The Supervisory Committee was of the view that during 2019, the Company had sound financial systems, regulated management and reasonable expenses. The Company's 2019 Financial Statements was audited by Ernst & Young who have issued the standard audit report with an unqualified opinion that the 2019 Financial Statements prepared by the Company fairly reflected the financial condition and operating results of the Company.

3. The Supervisory Committee supervised the utilization of the proceeds by the Company. The Supervisory Committee was of the view that the Company was able to manage and utilize the proceeds according to national laws and regulations and the commitments made by it in the Prospectus, and the Supervisory Committee will continue to supervise and inspect the utilization of such proceeds.

4. The Supervisory Committee reviewed the related data of connected transactions carried out by the Company's Controlling Shareholders. It was of the view that those transactions were conducted in a fair and just way, at reasonable price, and without prejudice to the interests of the Company and other shareholders. The Directors, President and other senior management members of the Company have exercised the rights granted by the shareholders and discharged their obligations in good faith and with due diligence. So far, the Supervisory Board is not aware of any abuse of authority which impairs the interests of the shareholders and the legitimate rights of the employees of the Company.

5. The Supervisory Committee thoroughly reviewed the internal control system of the Company and regarded the existing system as complete, reasonable, effective, had no major flaws and complied with the requirements of applicable laws, regulations and rules, and can satisfy all the requirements of effective risk control in all material aspects; the Internal Control Assessment Report of the Company for 2019 (《2019年度內部控制評價報告》) has given an objective and true view of the establishment, operation, inspection and supervision of the internal control system of the Company.

V. Trainings of Supervisors

During the reporting period, Supervisors attended two training sessions, including Rights, Obligations and Legal Liabilities of Listed Companies Supervisors (《上市公司監事的權利、義務和法律責任》) held on 4 April 2019; and Disclosure Responsibility, Basic Principles of Corporate Governance, Connected Transactions (《披露責任、公司治理基本原則、關聯交易》) held on 23 October 2019, to improve their grasps on Company's operation and business related information, and to ensure they fully fulfil the role of supervisors.

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

Chairman of the Supervisory Committee
Mr. WANG Fenghua

Jilin, the PRC
30 March 2020

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, from the listing date until the end of the Reporting Period, the Company has complied with all the code provisions as set out in the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the Directors, Supervisors and relevant employees of the Company. Upon making specific enquiries to all of the Directors, Supervisors and relevant employees of the Company, all Directors, Supervisors and relevant employees confirmed that during the period from the Listing Date to 31 December 2019, each of the Directors, Supervisors, and relevant employees has strictly complied with the required standards set out in the Model Code.

The Company is not aware of any incident of non-compliance with the Model Code committed by any Directors, Supervisors or relevant employees during the period from the Listing Date to 31 December 2019.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the interests of the Company.

The Board shall regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board currently consists of eight members, comprising four executive Directors, a non-executive Director and three independent non-executive Directors.

The Board of the Company consists of the following Directors:

Executive Directors

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

Non-executive Director

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

Independent Non-executive Directors

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

Biographical information of the Directors are set out in "Directors, Supervisors and Senior Management" section on pages 55 to 63 of this Annual Report.

There are no financial, business, family or other material or relevant relationships between members of the Board.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2019, the Board has been in compliance with relevant requirements of the Listing Rules, and has appointed at least three independent non-executive Directors (representing at least one-third of our Board), with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

RE-ELECTION OF NON-EXECUTIVE DIRECTORS AND DIRECTORS

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

Each of the Directors of the Company has been appointed for a specific term of three years and is renewable upon re-election by Shareholders.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

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

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

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

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

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

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

For the year ended 31 December 2019, the Board held seven meetings to deal with various important matters of the Company.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

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

During the year of 2019, the Company provided two trainings for all Directors. Such training sessions cover a wide range of relevant topics including Directors' statements and undertakings, Supervisors' statements and undertakings, code for securities transactions by Directors and Supervisors, related insider dealing rules under the SFO, disclosable interests as required by SFO, management of information disclosure, continuing responsibilities for information disclosure (such as general matters and inside information), connected transactions and disclosable transactions. In addition, relevant reading materials including legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying. Each of the Directors has completed the aforementioned trainings.

BOARD COMMITTEES

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

Members of each Board committee comprise independent non-executive Directors and the list of the chairperson and members of each Board committee are set out under "Corporate Information" on pages 8 to 10 of this Annual Report.

AUDIT COMMITTEE

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

During the year ended 31 December 2019, the audit committee held one meeting to monitor and discuss Financial Management System, Accounting Management System, External Auditor Non-audit Services Policy, Whistleblowing Policy of the Company, and reviewed 2019 Internal Control Evaluation Report, auditors' exact scope of services and reporting obligations.

REMUNERATION COMMITTEE

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

During the year ended 31 December 2019, the remuneration committee held one meeting to discuss and monitor the Remuneration Policy and Structure of the Company's Directors and Senior Management, and conducted performance evaluation on executive directors.

NOMINATION COMMITTEE

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

During the year ended 31 December 2019, the remuneration committee held one meeting to discuss and monitor the Policies on Legal and Regulatory Compliance, Succession Planning of Director and Director Nomination Policy of the Company, formulate Company's Corporate Governance Policy and review the implementation of these policies.

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

STRATEGY COMMITTEE

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

During the year ended 31 December 2019, the remuneration committee held one meeting. The strategy committee has reviewed and made recommendations on Company's mid- to long-term development strategy plan, and has also monitored and discussed the Environmental, Social and Governance Policy of the Company.

BOARD DIVERSITY AND NOMINATION POLICY

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

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

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

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

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

ATTENDANCE RECORDS OF DIRECTORS AND MEMBERS OF BOARD COMMITTEE

The attendance record of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

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

Apart from regular Board meetings, the Chairperson also held one meeting with the independent non-executive Directors without the presence of executive Directors during the reporting period, mainly discussing the acquisition of Changchun Yatai Heating Power Co., Ltd. of the Controlling Shareholder.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Board fully understands its responsibilities for risk management and internal control systems, and for reviewing their effectiveness. The systems aim to manage rather than eliminate the risks of the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The major internal control policies established by the Company include internal control evaluation manual, risk management system, accounting management system, financial management system and legal affairs management system. The management has confirmed to the Board and the audit committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019.

The Board reviews the Company's risk management and internal control systems annually. The Board, as supported by the audit committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources. Arrangements/Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may significantly affect the Company's ability to operate as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in "Independent Auditor's Report" section on pages 67 to 69.

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

AUDITOR'S REMUNERATION

The remuneration payable to the Company's external auditors by the Company in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to RMB1.9 million and nil, respectively.

JOINT COMPANY SECRETARIES

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

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

For the year ended 31 December 2019, Mr. WAN To and Ms. TONG Suet Fong have received no less than 15 hours of relevant professional training on reviewing the requirements under the Listing Rules and other compliance.

SHAREHOLDERS' RIGHTS

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

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

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

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

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

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

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

PUTTING FORWARD ENQUIRIES TO THE BOARD

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

CONTACT DETAILS

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTORS RELATIONS

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

THE ARTICLES OF ASSOCIATION

During the reporting period, the Company has revised its Articles of Association on 17 September 2019. An up-to-date version of the Articles of Association is also available on the Company's website and the Stock Exchange's website. At the date of this report, the Board has considered and approved, among other things, the resolution regarding the amendments to certain articles under the Articles of Association. The resolution regarding the amendments to the Articles of Association is required to be submitted as a special resolution for consideration and approval at the general meeting of the Company. Please refer to the announcement of the Company dated 30 March 2020 for details. The current Articles of Association of the Company shall continue to be valid prior to the approval of the relevant resolution at the general meeting.

CHAIRMAN, NON-EXECUTIVE DIRECTOR LIU CHANGCHUN

Mr. LIU Changchun (劉長春先生), aged 56, joined our Group in March 2016 and is currently the Chairman of our Board and a non-executive Director of our Company. Mr. LIU is mainly responsible for the formulation of our corporate strategies and directing the activities of our Board.

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

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

Outside our Group, Mr. LIU has served in Changchun Heating Power (Group) Company Limited (長春市熱力 (集團) 有限責任公司) ("Changchun Heating Group"), our Controlling Shareholder, as a director since March 2016 and as the chairman of the board since September 2016. Since July 2018, Mr. LIU has served as the chairman in Jilin Province Xinda Investment Management Co., Ltd. (吉林省新達投資管理有限公司) and has served in Changchun Yatai Heating Power Co., Ltd. (長春亞泰熱力有限責任公司) as the chairman of the board (legal person) since December 2019.

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

VICE CHAIRMAN, EXECUTIVE DIRECTOR, GENERAL MANAGER YANG ZHONGSHI

Mr. YANG Zhongshi (楊忠實先生), aged 53, joined our Group in April 1998 and is currently the vice chairman of the Board, an executive Director and the general manager of our Company, mainly responsible for overall management of business and operations of our Group including heat supply and heat supply related services, with specific focus on the general office, human resources department, internal audit department and resources management department.

Mr. YANG has approximately 29 years of working experience in the heating industry and held various senior management positions within our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group"). He was the deputy chief engineer of Changchun Heating Group from December 2000 to December 2002 and was promoted to chief engineer since December 2002, mainly responsible for overall technology management. He served as the deputy general manager at Changchun Heating Group from February 2011 to April 2016, mainly responsible for production management, production safety management and end-users service management, and the general manager from April 2016 to May 2018, mainly responsible for overall business management and implementation of policies passed by the board of directors. Mr. YANG was appointed as a director of Changchun Heating Group in August 2017, mainly responsible for overall management of business and operation. Since May 2018, he has not participated in the daily operation of Changchun Heating Group and has been mainly responsible for formulation of corporate strategies. He was a director at Heating Engineering Design from September 2012 to July 2018, mainly responsible for overall management of business and operations. Mr. YANG has served as a director in Jilin Province Xinda Investment Management Co., Ltd. since July 2018 and in Changchun Yatai Heating Power Co., Ltd. since December 2019.

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

EXECUTIVE DIRECTOR, DEPUTY GENERAL MANAGER SHI MINGJUN

Mr. SHI Mingjun (史明俊先生), aged 51, joined our Group in April 1998 and is currently an executive Director and the deputy general manager of our Company, mainly responsible for overall management of heat supply network construction projects as well as mergers and acquisitions and business development of our Group.

Mr. SHI has approximately 23 years of working experience in the heating industry. He held various positions within our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group") and worked successively as manager assistant, deputy manager and manager of the construction development division from September 2000 to August 2009, mainly responsible for construction of thermal power plants network, overall management of business operations and formulation of business strategies. He then worked at Changchun Heating Group as the general manager assistant from August 2009 to August 2010 and was promoted to the position of deputy general manager from August 2010 to July 2018 mainly responsible for formulation of strategies and development plans of our Group and overall management of business operations. Mr. SHI was appointed as a director of Changchun Heating Group from November 2014 to January 2018, mainly responsible for overall management of construction projects. He has worked as the deputy general manager of our Company since July 2018. Mr. SHI has served in Datang Changre Jilin Heating Company Limited (大唐長熱吉林熱力有限公司) as a non-executive director since June 2017, as the chairman (legal person) in Changchun FAW Sihuan Kinetic Company Limited (長春一汽四環動能有限公司) since October 2014, as an executive director and general manager in Jilin Province Chuncheng Biomass Power Co., Ltd since December 2018, and as a director in Changchun Yatai Heating Power Co., Ltd. since December 2019.

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

EXECUTIVE DIRECTOR, DEPUTY GENERAL MANAGER, FINANCIAL CONTROLLER XU CHUNGANG

Mr. XU Chungang (徐純剛先生), aged 46, joined our Group in May 2018 and is currently an executive Director, the deputy general manager and financial controller of our Company, mainly responsible for overall management of business plans, finance and legal matters of our Group.

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

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

EXECUTIVE DIRECTOR LI YEJI

Mr. LI Yeji (李業績先生), aged 42, joined our Group in September 2001 and is currently an executive Director, and our manager of the construction management center, mainly responsible for overall management of construction projects of our Group.

Mr. LI has approximately 19 years of working experience in the PRC heating industry. He has held various positions within our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group") and worked successively as the construction manager of the construction development division from September 2001 to May 2002, mainly responsible for coordination of construction projects; the process engineer of the technical department from May 2002 to April 2008, mainly responsible for process management of technical department; the deputy manager of Chaoyang Division One from April 2008 to March 2009 mainly responsible for production management and quality control; the deputy head of production department from March 2009 to March 2010 mainly responsible for operations and end-users services management; the deputy manager of Chaoyang Division Two from March 2010 to April 2012 mainly responsible for production management, quality control and management of technical equipment; the head of the integrated business planning department from April 2012 to May 2015 mainly responsible for overall management and operations planning; the head of the fuel management division and secretary from May 2015 to May 2017 mainly responsible for overall fuel management; deputy head of the construction management center from May 2017 to July 2017 mainly responsible for construction project management; and manager of the construction management center from December 2017 to May 2018 mainly responsible for construction project management. Mr. LI was seconded to Tianjin Jin'an Thermal Power Limited Liability Company* (天津津安熱電有限責任公司) as deputy general manager from July 2017 to December 2017, mainly responsible for management of technology and production.

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

INDEPENDENT NON-EXECUTIVE DIRECTOR WANG YUGUO

Mr. WANG Yuguo (王玉國先生), aged 50, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. WANG has served as the chief of tourist office and head of investment promotion office at the Foreign Economic Agency of Dehui City, Jilin Province* (吉林省德惠市對外經濟發展局) from March 2003 to February 2006, mainly responsible for management of tourism resources and the introduction of foreign investment, during which he also served as the director of foreign investment division at the Economic Department of Dehui City, Jilin Province* (吉林省德惠市經濟局) from February 2006 to December 2010, mainly responsible for the introduction of foreign investment, during which he also served as the deputy head of Buhai County (布海鎮), Dehui City (德惠市) from May 2007 to June 2009, mainly responsible for management of human resources and modern agricultural projects. From December 2010 to December 2012, Mr. Wang was the general manager of Jilin Province Dehui City Investment Development Co., Ltd.* (吉林省德惠市城市投資發展有限公司), a city project investment company and property developer, mainly responsible for management of the investment projects in Dehui City and the development and construction of real estate and infrastructure. From December 2012 to December 2015, Mr. WANG was the deputy manager of Dehui City Commercial State-Owned Assets Operation Company* (德惠市商業國有資產經營公司), mainly responsible for introducing foreign investments to Dehui City. From December 2015 to June 2017, Mr. WANG served as the deputy chief at the Economic Department of Dehui City of Jilin Province* (吉林省德惠市經濟局), mainly responsible for development and management of tourism resources and introduction of foreign investment projects. From June 2017 to April 2018, Mr. WANG was the deputy secretary general of Jilin Province City Heating Association* (吉林省城鎮供熱協會), mainly responsible for assisting the chief secretary general to manage the association. He has served as the chief secretary general at Jilin Province City Heating Association* (吉林省城鎮供熱協會) since April 2018, mainly responsible for research and consolidation of heat supply regulations at the state-level and provincial-level and the promotion of heat supply industries.

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

INDEPENDENT NON-EXECUTIVE DIRECTOR FU YACHEN

Mr. FU Yachen (付亞辰先生), aged 66, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. FU has over 36 years of experience teaching in university. He worked successively as a lecturer and the deputy head of the faculty of finance at Jilin Finance and Trading College* (吉林財貿學院) (now known as Jilin University of Finance and Economics (吉林財經大學)) and Changchun Tax Institute* (長春稅務學院) (now known as Jilin University of Finance and Economics (吉林財經大學) from July 1982 to December 1986, from January 1987 to December 1992 and from January 1993 to December 1998, respectively, mainly responsible for giving lectures. He was promoted as the department head of faculty of finance at Changchun Tax Institute* (長春稅務學院) (now known as Jilin University of Finance and Economics (吉林財經大學) from January 1999 to December 2009, mainly responsible for administrative work. From January 2010 to December 2010, Mr. FU was the dean of the finance faculty of Jilin University of Finance and Economics (吉林財經大學) mainly responsible for management and administration. Mr. FU has been working as an advisor at Jilin Provincial Government since January 2012, mainly responsible for offering advice and supervising the government. He has been working as an independent director at Bank of Jilin (吉林銀行) since October 2014, mainly responsible for overseeing the management independently.

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

INDEPENDENT NON-EXECUTIVE DIRECTOR POON POK MAN

Mr. POON Pok Man (潘博文先生), aged 35, is an independent non-executive Director of our Company. He was appointed as our independent non-executive Director on 19 August 2019. He is responsible for overseeing the management of our Group independently. Mr. POON has over 12 years of professional experience in corporate finance, corporate restructuring, financial reporting and auditing.

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

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

CHAIRMAN OF THE SUPERVISORY COMMITTEE WANG FENGHUA

Mr. WANG Fenghua (王風華先生), aged 53, is the Chairman of the Supervisory Committee of our Company. He was appointed as our Supervisor on 30 May 2018. Mr. WANG worked as the head of Changchun Heating Group construction development division from February 2001 to April 2004, mainly responsible for materials procurement. From April 2004 to April 2008, Mr. WANG successively worked as the deputy manager and chairman of the labor union at the construction development division of our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group"), mainly responsible for procurement and management of the labor union. From April 2008 to November 2009, Mr. WANG was the head of procurement department of Changchun Heating Group, mainly responsible for materials procurement management. From November 2009 to September 2010, he worked as the general manager assistant at Changchun State-owned Capital Investment and Operation Co., Ltd.* (長春市國有資本投資經營有限公司), mainly responsible for assisting the general manager to manage and operate state-owned properties. From September 2010 to February 2014, Mr. WANG worked as the chairman of the labor union at Changchun City Heat Supplies Operation Co., Ltd.* (長春市供熱經營有限責任公司), mainly responsible for labor union matters. Mr. WANG was promoted to the position of deputy general manager of Changchun City Heat Supplies Operation Co., Ltd.* (長春市供熱經營有限責任公司) from February 2014 to May 2015, mainly responsible for management of company resources and coal. Mr. WANG re-joined Changchun Heating Group in May 2015 and worked as the chairman of the labor union since then.

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

SUPERVISOR WANG XUEJING

Ms. WANG Xuejing (王雪晶女士), aged 43, is a Supervisor of our Company. She was appointed as our Supervisor on 30 May 2018. From August 2005 to September 2009, Ms. WANG worked as an accountant and finance manager at Ginde Plastic Pipe Industry Group (金德管業集團) and promoted to the position of financial controller in the Beijing branch from October 2009 to December 2013, mainly responsible for preparing the financial accounts and participating in the making of important corporate and operational decisions. Ms. WANG worked as a finance manager in the finance department at Changchun Guoxing Credit Guarantee & Investment Co., Ltd. (長春國興信用擔保投資有限公司) from January 2014 to June 2014. Ms. WANG joined Changchun State-owned Capital Investment and Operation Co., Ltd.* (長春市國有資本投資經營有限公司) as the deputy manager of the finance department from June 2014 to March 2016 and since March 2016, she has been the manager of finance management department mainly responsible for providing financial data and analysis for formulating operational, investment and financing decisions.

Ms. WANG graduated from Changchun City Economics and Trading College (長春市經濟貿易學校) in Jilin Province, the PRC, majoring in economics and trading in June 1998. Ms. WANG is a member of the Jilin Province Institute of Certified Public Accountants (吉林省註冊會計師協會).

EMPLOYEE-REPRESENTATIVE SUPERVISOR LI XIAOLING

Ms. LI Xiaoling (李曉玲女士), aged 36, is a Supervisor representing ordinary employees of our Company. She was appointed as our Supervisor on 30 May 2018. Ms. LI worked successively as technician in the technical department from July 2006 to April 2008, mainly responsible for maintaining and operating the office automation system, archivist at the general manager office from April 2008 to May 2009, mainly responsible for managing the archives, back office administrator of the human resources department from May 2009 to October 2016, mainly responsible for training and management of technicians, assistant of the head of human resources department from October 2016 to July 2017, mainly responsible for human resources provision and staff training, and deputy head of human resources department from July 2017 to May 2018, mainly responsible for human resources management at our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group"). From May 2018 to November 2019, Ms. LI worked as the deputy head of human resources department at our Company mainly responsible for the human resources management. Ms. LI has served as the deputy head of securities department (taking charge of work) mainly responsible for securities management.

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

DEPUTY GENERAL MANAGER ZHANG LIMING

Mr. ZHANG Liming (張黎明先生), aged 45, joined our Group in January 1999 and is currently the deputy general manager of our Company mainly responsible for production management, operations management of heating facilities and investment management. Mr. ZHANG held various position within our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group"). He worked successively as head of production from January 1999 to April 2001 at Nanyi Division, mainly responsible for management of heating supply operation and quality control; manager assistant and deputy manager at Dongling Division from April 2001 to April 2006, mainly responsible for management of heating supply operation and quality control, as well as, overall management. He then worked as the manager of Erdao Division, mainly responsible for overall management of heat production and service fees from April 2006 to April 2009; the manager at Chaoyang Division Two from April 2009 to April 2010, mainly responsible for management of heat production and operation; the manager at Dongling Division, mainly responsible for overall management of heat supply operations from April 2010 to April 2014; head of construction development department from April 2014 to May 2017, mainly responsible for overall management of heat supply, technologies and safety matters; general manager assistant from December 2014 to May 2018, mainly responsible for project management; and an officer of construction management center from May 2017 to December 2017. He was the deputy chief engineer of Changchun Heating Group from December 2017 to May 2018, mainly responsible for overall management of heat supplies, technologies, safety matters and construction design.

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

BOARD SECRETARY, JOINT COMPANY SECRETARIES WAN TAO

Mr. WAN Tao (萬滔先生), aged 33, joined our Group in May 2011 and is currently the Board secretary and general office manager of our Company. He was appointed as our Board secretary in May 2018 and our joint company secretary on 20 May 2019. Mr. WAN was the secretary and archivist and project statistician of Erdao Division of our Controlling Shareholder Changchun Heating Power (Group) Company Limited ("Changchun Heating Group") from May 2011 to October 2012 and from October 2012 to May 2013, respectively, mainly responsible for news publication and preparing plans for heat production. He then worked as communications officer for the party branch at Changchun Heating Group from May 2013 to May 2015, mainly responsible for publications and media communications; deputy head of fuel management of Changchun Heating Group from May 2015 to May 2017, mainly responsible for securing coal supply for heat production; deputy director of office from May 2017 to May 2018, mainly responsible for management of the office. Mr. WAN has been the Board secretary and director of office of our Company since May 2018 responsible for organizing board meetings, shareholders' meetings, supervisors' committee preparation of documents and handling affairs in relation to our Group.

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

JOINT COMPANY SECRETARIES

TONG SUET FONG

Ms. Tong Suet Fong, is the vice president of the company secretarial services department of Computershare Hong Kong Development Limited. She is currently a joint company secretary of the Company. She has over 13 years of experience in company secretarial services. Ms. Tong holds a master's degree in Corporate Governance awarded by The Hong Kong Polytechnic University. She is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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To the shareholders of Jilin Province Chuncheng Heating Company Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Jilin Province Chuncheng Heating Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 152, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on contracts of construction, maintenance and design services ("construction contracts")	
Approximately 38% of the Group's total revenue was related to construction contracts for the year of 2019, which had a significant impact on the Group's consolidated financial statements. Revenue from these fixed price construction contracts was recognized over time, measured by reference to the completion of individual contract of construction works which requires estimation to be made by management. The completion percentage is estimated by reference to the actual costs incurred up to the end of the reporting period over the total budgeted costs. Significant management's estimation is involved in estimating the completion percentage and the total budgeted costs. The accounting policy, significant accounting judgements and estimates and disclosures about construction contracts are included in Notes 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES and 5 REVENUE, OTHER INCOME AND GAINS to the consolidated financial statements.	Our audit procedures included, among others, understanding and evaluating the revenue recognition process related to construction contracts and testing the relevant controls that the Group has put in place over its processes to record construction costs, total budgeted costs and construction contract revenue and to calculate the completion percentage. Besides, we gained an understanding of the construction progress based on examination of the associated project documentation and discussion on the status of projects with finance and project managers of the Group. We also discussed with management to gain an understanding of their estimates for the total budgeted costs and the changes, checked the nature and components of the costs, and took into account the historical accuracy of such estimates. Furthermore, we performed tests of details, such as reviewing the contract key terms of significant projects, checking to the major construction projects, including actual costs and tax invoices, and reviewing the calculation worksheets for the percentage of completion of the construction works. We also evaluated the adequacy of the disclosures of the Group's construction contracts.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables and contract assets	
The carrying amounts of trade receivables and contract assets of the Group totaled RMB507.8 million as at 31 December 2019, after netting off the amount of impairment allowance of RMB55.2 million. Trade receivable and contract asset balances were significant to the Group as they represented 20% of the Group's total assets. The measurement of expected credit losses ("ECLs") requires the application of significant judgements which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models, such as the probabilities of default, loss given default, expected future cash flows and forward-looking macroeconomic factors. Due to the significance of the trade receivables and contract assets and the corresponding subjectivity inherent in the estimation of impairment allowance, we considered this as a key audit matter. Refer to the SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in Note 2.4, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES in Note 3 and the disclosures of trade receivables and contract assets in Note 19 and Note 20 to the financial statements.	Our audit procedures included but not limited to: • We tested the ageing of trade receivables for a sample of customer transactions. • We evaluated receipts after year-end to determine any remaining exposure at the date of the financial statements. • We assessed the design and tested the operating effectiveness of relevant controls in relation to accounting estimation of expected credit losses on trade receivables. • We considered the customers' historical payment records along with other macroeconomic information. • We assessed the Group's accounting estimation about loss allowance, which included assessing the calculation and comparing the Group's provisioning rates against historical collection data. • We also evaluated the adequacy of financial statement disclosures relating to the Group's exposure to credit risk.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The engagement partner on the audit resulting in this independent auditor's report is Bennett S.H. Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	**1,561,415**	1,440,159
Cost of sales	7	**(1,274,246)**	(1,215,485)
Gross profit		**287,169**	224,674
Other income and gains	5	**26,280**	20,955
Administrative expenses		**(103,882)**	(72,426)
Selling expenses		**(2,423)**	–
Impairment on financial and contract assets, net	7	**(10,215)**	(23,319)
Impairment of property, plant and equipment	7	**(7,197)**	(401)
Impairment of inventories	7	**(2,491)**	–
Other expenses		**(148)**	(357)
Finance costs	6	**(7,125)**	(11,344)
Share of profits and losses of a joint venture	15	**336**	1,501
PROFIT BEFORE TAX	7	**180,304**	139,283
Income tax expense	10	**(46,333)**	(36,606)
PROFIT FOR THE YEAR		**133,971**	102,677
Attributable to:			
Owners of the Company		**133,971**	102,677
Non-controlling interests		**–**	–
		133,971	102,677
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement of supplemental benefit obligations, net of tax	27	**2,264**	(361)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**2,264**	(361)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**136,235**	102,316
Attribute to:			
Owners of the Company		**136,235**	102,316
Non-controlling interests		**–**	–
		136,235	102,316
Earnings per share expressed in RMB	12		
Basic		**0.35**	0.29
Diluted		**0.35**	0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**875,200**	929,841
Investment properties		**41**	43
Intangible assets		**3,750**	3,872
Deferred tax assets	14	**24,877**	19,408
Investment in a joint venture	15	**57,561**	62,692
Right-of-use assets	16	**2,537**	3,829
Other non-current assets	17	**4,197**	8,775
TOTAL NON-CURRENT ASSETS		**968,163**	1,028,460
CURRENT ASSETS			
Inventories	18	**9,105**	11,369
Trade receivables	19	**308,955**	200,148
Contract assets	20	**198,861**	262,215
Prepayments and other receivables	21	**379,474**	335,316
Other current assets	22	**9,243**	19,867
Cash and cash equivalents	23	**699,940**	358,884
TOTAL CURRENT ASSETS		**1,605,578**	1,187,799
CURRENT LIABILITIES			
Trade payables	24	**398,137**	320,814
Other payables and accruals	25	**90,227**	97,026
Interest-bearing bank and other borrowings	26	**10,715**	108,000
Lease liabilities	16	**1,355**	1,493
Tax payable		**39,273**	39,020
Early retirement and supplemental benefit obligations	27	**617**	1,183
Contract liabilities	5	**681,620**	609,222
Deferred income	28	**2,555**	1,793
TOTAL CURRENT LIABILITIES		**1,224,499**	1,178,551
NET CURRENT ASSETS		**381,079**	9,248
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,349,242**	1,037,708

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	16	**1,277**	2,346
Early retirement and supplemental benefit obligations	27	**9,191**	10,571
Contract liabilities	5	**468,437**	500,943
Deferred income	28	**29,887**	21,532
TOTAL NON-CURRENT LIABILITIES		**508,792**	535,392
NET ASSETS		**840,450**	502,316
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	**466,700**	350,000
Reserves	30	**373,750**	152,316
TOTAL EQUITY		**840,450**	502,316

Mr. Yang Zhongshi
Director

Mr. Xu Chungang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Notes	Paid in capital RMB'000	Share capital RMB'000 Note 29	Capital reserve* RMB'000 Note 30(a)	Safety fund* RMB'000 Note 30(c)	Other comprehensive income* RMB'000	Statutory reserve* RMB'000 Note 30(b)	Retained earnings* RMB'000	Equity attributable to owners of the Company RMB'000	Total equity RMB'000
At 1 January 2018		–	–	–	–	–	–	–	292,729	292,729
Profit for the year		–	–	–	–	–	–	102,677	–	102,677
Other comprehensive income										
– Remeasurement of employee benefit obligations		–	–	–	–	(361)	–	–	–	(361)
Total comprehensive income for the year		–	–	–	–	(361)	–	102,677	–	102,316
Capital contributions upon the Reorganization										
– Contribution of a joint venture		–	–	–	–	–	–	–	63,557	63,557
– Distribution to the Shareholder upon completion of the Reorganization		–	–	–	–	–	–	–	(34,286)	(34,286)
– Capitalisation of new shares to the Shareholder from transfer of assets and liabilities in the Reorganization	30(a)	–	–	322,000	–	–	–	–	(322,000)	–
Capital injection from a shareholder	30(a)	53,763	–	24,237	–	–	–	–	–	78,000
Shareholding reform	29(a)	(53,763)	350,000	(296,237)	–	–	–	–	–	–
Transfer to statutory reserve	30(b)	–	–	–	–	–	8,874	(8,874)	–	–
Appropriation and utilization of safety fund, net	30(c)	–	–	–	8,419	–	–	(8,419)	–	–
At 31 December 2018		**–**	**350,000**	**50,000**	**8,419**	**(361)**	**8,874**	**85,384**	**–**	**502,316**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Notes	Share capital RMB'000 Note 29	Capital reserve* RMB'000 Note 30(a)	Safety fund* RMB'000 Note 30(c)	Other comprehensive income* RMB'000	Statutory reserve* RMB'000 Note 30(b)	Retained earnings* RMB'000	Total equity RMB'000
At 1 January 2019		350,000	50,000	8,419	(361)	8,874	85,384	502,316
Profit for the year		–	–	–	–	–	133,971	133,971
Other comprehensive income								
– Remeasurement of employee benefit obligations		–	–	–	2,264	–	–	2,264
Total comprehensive income for the year		–	–	–	2,264	–	–	2,264
Issue of shares	29(b)	116,700	87,490	–	–	–	–	204,190
Recognition of other changes in other reserve of a joint venture		–	(2,291)	–	–	–	–	(2,291)
Transfer to statutory reserve	30(b)	–	–	–	–	10,668	(10,668)	–
Appropriation and utilization of safety fund, net	30(c)	–	–	1,344	–	–	(1,344)	–
At 31 December 2019		**466,700**	**135,199**	**9,763**	**1,903**	**19,542**	**207,343**	**840,450**

* These reserve accounts comprise the consolidated reserves of RMB373,750,000 (2018: RMB152,316,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**180,304**	139,283
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	7	**90,683**	89,210
Amortization of long-term prepaid expenses		**4,578**	4,578
Amortization of intangible assets		**544**	456
Amortization of right-of-use assets		**1,344**	879
Proceeds from financial assets at fair value through profit or loss	5	**–**	(2,307)
Finance costs	6	**4,824**	11,344
Loss on disposal of items of property, plant and equipment	7	**–**	12
Impairment on financial and contract assets, net	7	**10,215**	23,319
Provision for impairment of inventories	7	**2,491**	–
Provision for impairment of property, plant and equipment	7	**7,197**	401
Bank interest income	5	**(8,489)**	(5,412)
Foreign exchange loss	7	**2,301**	–
Share of profits and losses of a joint venture		**(336)**	(1,501)
(Increase)/decrease in inventories		**(227)**	36,763
Increase in receivables and contract assets		**(55,597)**	(266,360)
(Increase)/decrease in other current assets		**(1,475)**	53,089
Increase in prepayments and other receivables		**(52,753)**	(205,964)
Increase in payables		**77,323**	96,220
Increase/(decrease) in other payables and accruals		**5,618**	(70,252)
Increase/(decrease) in contract liabilities		**39,892**	(3,834)
Increase in early retirement and supplemental benefit obligations		**318**	602
Increase in deferred income		**9,117**	7,167
Cash generated from/(used in) operations		**317,872**	(92,307)
Interest received		**8,489**	5,412
Income tax paid		**(51,549)**	(14,826)
Net cash flows from/(used in) operating activities		**274,812**	(101,721)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets		**(420)**	(553)
Purchases of items of property, plant and equipment		**(56,077)**	(219,176)
Proceeds from disposal of items of property, plant and equipment		**25**	368
Proceeds from financial assets at fair value through profit or loss		**–**	162,000
Interest received from financial assets at fair value through profit or loss		**–**	2,320
Dividend received from a joint venture		**3,176**	2,366
Net cash flows used in investing activities		**(53,296)**	(52,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of principal of lease liabilities		**(1,039)**	(730)
Payment of interest expenses of lease liabilities		**(168)**	(93)
Transaction costs pursuant to initial public offering		**(29,158)**	(9,438)
Proceeds from bank and other borrowings		**10,715**	72,000
Proceeds from issue of shares		**247,972**	–
Repayment of bank and other borrowings		**(108,000)**	(67,000)
Capital injection		**–**	78,000
Interest paid		**(4,777)**	(11,264)
Repayment to related parties		**(2,227)**	(62,043)
Advances from related parties		**8,523**	32,194
Net cash flows from financing activities		**121,841**	31,626
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**343,357**	(122,770)
Cash and cash equivalents at beginning of year		**358,884**	481,654
Effect of foreign exchange rate changes, net		**(2,301)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**699,940**	358,884

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 incorporated in the People's Republic of China (the "PRC") on 23 October 2017 as a result of the reorganization of Changchun Heating Power (Group) Company Limited ("Changchun Heating Group" or the "Shareholder") and its subsidiaries (the "Reorganization") in preparation for listing the Company's H Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The registered office of the Company is located at 28/F (Hong Cheng Xiyu), 998 Nanhu Avenue, Nanguan District Sub-district B, Changchun, Jilin Province, the PRC.

The H Shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 24 October 2019. Details of movements in the Company's share capital are set out in Note 29 to the financial statements.

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

- Heat supply, including the provision and distribution of heat, pipeline connection fee and heat transmission;

- Construction, maintenance and design services and others;

In the opinion of the directors of the Company ("Directors"), the Controlling Shareholder of the Company is Changchun Heating Group, a company established and domiciled in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of Changchun ("SASAC Changchun") (長春市人民政府國有資產監督管理委員會).

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name of company	Place and date of incorporation/ registration and place of operations	Registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Changchun City Runfeng Construction Installation Engineering Company Limited ("Changchun Runfeng")	Jilin, the PRC, 10 October 2012	RMB40,000,000	100%	–	Engineering construction and installation
Jilin Province Heating Engineering Design and Research Company Limited ("Heating Engineering Design")	Jilin, the PRC, 22 June 2007	RMB5,000,000	100%	–	Heating engineering design
Jilin Province Changre Maintenance Service Company Limited ("Changre Maintenance")	Jilin, the PRC, 9 August 2016	RMB10,000,000	100%	–	Engineering maintenance
Jilin Province Changre Pipelines Transmission Company Limited ("Changre Pipelines")	Jilin, the PRC, 15 September 2017	RMB50,000,000	100%	–	Pipeline transmission
Jilin Province Changre Electrical Apparatus Company Limited ("Changre Electrical Apparatus")	Jilin, the PRC, 24 October 2017	RMB4,000,000	100%	–	Maintenance service
Jilin Province Chuncheng Biomass Power Co., Ltd. ("Biomass Power")	Jilin, the PRC, 10 December 2018	RMB20,000,000	100%	–	Biomass heat supply

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis, except for equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Comparative information

Certain comparative amounts for the year ended 31 December 2018 have been reclassified to conform with current year's presentation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015-2017 Cycle* - Amendments to IFRS 3, IFRS 11 and IAS 12, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments under *Annual Improvements to IFRSs 2015-2017 Cycle*

IAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not adopted the following standards, that have been issued but are not yet effective, in these financial statements:

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
IFRS 17	*Insurance Contracts*[2]

[1] Effective for annual periods beginning on or after 1 January 2020

[2] Effective for annual periods beginning on or after 1 January 2021

[3] No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

Business combination for entities under common control

Business combinations arising from transfer of interests in entities that are under the control of the shareholder who controls the Group are accounted for as if the acquisition had occurred at the beginning of the year or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Company's Controlling Shareholder's consolidated financial statements.

Upon transfer of an interest in an entity to another entity that is under the control of the shareholder who controls the Group, any difference between the Group's interest in the carrying value of the assets and liabilities and the cost of transfer of interest in the entity is recognised directly in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a shareholder of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is a joint venture of the other entity (or of a shareholder, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a shareholder of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the shareholder of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance (including overhauling expenses), is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.3% to 7.7%
Pipeline	6%
Machinery and equipment	9.6%
Office equipment and others	19.2%
Motor vehicle	16%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties, including buildings that are held for the purpose of leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of buildings are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	30 years	4%	3.2%

When an investment property is transferred to owner-occupied properties, it is reclassified as a fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer. Upon transfer, the carrying amount before transfer shall be recorded as cost after transfer.

The investment property's estimated useful life, net residual value and depreciation method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

The carrying amount of an investment property is reduced to the recoverable amount if the recoverable amount is below the carrying amount.

Intangible assets (other than goodwill)

Intangible assets are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 5 to 10 years. Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Software

Purchased software mainly consists of the software related to heating network system and office automation, which is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of usually 5 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings and structures	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss and other comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying asset to the lessee, are accounted for as finance leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECL.

Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The entity offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

1) Provision and distribution of heat

Revenue from the provision and distribution of heat is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group. The revenue is measured mainly by reference to the proportion of days of provision of heat to total days of the heating period as regulated by the government.

2) Pipeline connection fee

The Group receives a pipeline connection fee from customers for the connection of the Group's main heat pipeline with customers' residential households. The pipeline connection fee is non-refundable and represents an advance payment for future service of the provision of heat. Revenue from the pipeline connection fee is recognized over the expected customer beneficial period for the pipeline connection.

3) Heat transmission service

Revenue from the provision of the heat transmission service is recognized at the point in time when control of heat is transferred to the customer, generally when heat is supplied to the customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

4) Engineering construction and maintenance services

Revenue from the provision of construction services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognizes revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

5) Design services

Revenue from design services rendered, including design, consulting and feasibility studies with respect to heating projects, is recognized over time, using an input method to measure progress towards complete satisfaction of the services, because the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

6) Sale of goods

Revenue from the sale of industrial goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract.

Employee benefits

Employee benefits mainly include salaries, bonuses, allowances and subsidies, pension insurance, social insurance and housing funds, labor union fees, employees' education fees and other expenses related to the employees for their services. The Group recognizes employee benefits as liabilities during the period when employees render the services and allocates to the related cost of assets and expenses based on different beneficiaries.

Social pension plans

The Group has social pension plans for its employees arranged by local government labor and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination and early retirement benefits when it is demonstrably committed to termination when the entity has a detailed formal plan to terminate the employment of current employees without the possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Actuarial gains and losses are included in profit or loss when incurred. Benefits falling due for more than 12 months after the end of the reporting period are discounted to their present value.

The termination benefits expected to be paid within one year since the end of the reporting period are classified as current liabilities.

Defined benefit plan

The Group provides eligible employees with supplemental medical insurance, heat supply subsidies and other welfares, as applicable. The defined benefits are unfunded. The cost of providing benefits under the benefit plan is determined using the projected unit credit actuarial valuation method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Defined benefit plan (Continued)

Remeasurements arising from the defined benefit plan, comprising actuarial gains and losses are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under “cost of sales” and “administrative expenses” in profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis.

Apart from those described above, the Group does not have legal or constructive obligations over employee benefits.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

The financial statements are presented in Renminbi, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling the end of each reporting period. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting periods, are described below.

Percentage of completion of construction, maintenance and design services

The Group recognizes revenue according to the percentage of completion of the individual contracts of construction, maintenance and design services. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Management's estimation of the cost incurred to date and the budgeted cost is primarily based on the construction budget and actual cost report prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the percentage of completion and budgeted revenue. Because of the nature of the activities undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of both contract revenue and contract cost in the budget prepared for each construction contract as the contract progresses.

Useful lives and residual value of property, plant and equipment

The Group determines the estimated residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles, or legal or similar limits on the usage of the assets. Management will increase the depreciation charge where useful lives and residual value are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Details of property, plant and equipment are set out in Note 13 to the financial statements.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and contract assets (Continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 19 and Note 20 to the financial statements, respectively.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for non-financial assets (including the right-of-use assets) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Measurement of financial assets at fair value

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 35 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The details of deferred tax assets are set out in Note 14 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

– Heat supply, including the provision and distribution of heat, pipeline connection and heat transmission; and

– Construction, maintenance and design services, including certain rental services and the sales of goods.

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	964,237	597,178	1,561,415
Intersegment sales	–	39,021	39,021
	964,237	636,199	1,600,436
Reconciliation:			
Elimination of intersegment sales			(39,021)
Revenue			1,561,415
Segment results	143,685	38,332	182,017
Reconciliation:			
Elimination of intersegment results	4,621	(6,334)	(1,713)
Profit before tax			180,304
Segment assets	2,328,800	621,939	2,950,739
Reconciliation:			
Elimination of intersegment receivables	(165,504)	(66,126)	(231,630)
Other eliminations	(145,368)	–	(145,368)
Total assets			2,573,741
Segment liabilities	1,453,865	509,521	1,963,386
Reconciliation:			
Elimination of intersegment payables	(128,008)	(103,622)	(231,630)
Corporate and other unallocated liabilities	1,535	–	1,535
Total liabilities			1,733,291
Other segment information:			
Impairment losses recognized in profit or loss	6,014	13,889	19,903
Depreciation and amortization	96,359	790	97,149
Capital expenditure	55,981	516	56,497

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	939,522	500,637	1,440,159
Intersegment sales	–	50,006	50,006
	939,522	550,643	1,490,165
Reconciliation:			
Elimination of intersegment sales			(50,006)
Revenue			1,440,159
Segment results	119,553	21,103	140,656
Reconciliation:			
Elimination of intersegment results	7,352	(8,725)	(1,373)
Profit before tax			139,283
Segment assets	1,909,597	569,021	2,478,618
Reconciliation:			
Elimination of intersegment receivables	(76,848)	(54,950)	(131,798)
Other eliminations	(130,561)	–	(130,561)
Total assets			2,216,259
Segment liabilities	1,361,450	484,291	1,845,741
Reconciliation:			
Elimination of intersegment payables	(89,199)	(42,599)	(131,798)
Total liabilities			1,713,943
Other segment information:			
Impairment losses recognized/(reversed) in profit or loss	(1,747)	25,467	23,720
Depreciation and amortization	93,469	1,654	95,123
Capital expenditure	215,774	3,955	219,729

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's revenues from customers are all attributed to the PRC, and the Group's non-current assets are all located in the PRC.

Information of major customers

Revenue of approximately RMB293,052,000 for the year ended 31 December 2019 (2018: RMB216,626,000) was derived from the "Construction, maintenance and design services" segment to a single customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue, other income and gains is as follows:

	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers		
Provision and distribution of heat	**894,540**	875,399
Pipeline connection fee	**54,233**	51,522
Heat transmission	**11,951**	12,601
Engineering construction	**366,412**	310,928
Engineering maintenance	**220,774**	173,063
Design services	**9,743**	16,051
Sale of goods	**3,643**	340
	1,561,296	1,439,904
Revenue from other sources		
Gross rental income from operating leases, fixed lease payments	**119**	255
Total	**1,561,415**	1,440,159
Other income and gains		
Bank interest income	**8,489**	5,412
Government grants*	**16,918**	11,641
Gains from financial assets at fair value through profit or loss	**–**	2,307
Others	**873**	1,595
Total	**26,280**	20,955

* There are no unfulfilled conditions and other contingencies relating to these grants.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019	2018
	RMB'000	RMB'000
Type of goods or services		
Heat supply segment:		
– Provision and distribution of heat	**894,540**	875,399
– Pipeline connection fee	**54,233**	51,522
– Heat transmission	**11,951**	12,601
	960,724	939,522
Construction, maintenance, and design services segment:		
– Engineering construction	**366,412**	310,928
– Engineering maintenance	**220,774**	173,063
– Design services	**9,743**	16,051
– Sale of goods	**3,643**	340
	600,572	500,382
Total	**1,561,296**	1,439,904
Timing of revenue recognition		
Services delivered over time	**1,545,702**	1,426,963
Goods or services transferred at a point in time	**15,594**	12,941
Total	**1,561,296**	1,439,904

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

(a) Contract liabilities

	2019 RMB'000	2018 RMB'000
Current:		
Heat supply	**670,230**	606,145
Construction, maintenance and design services	**11,390**	3,077
	681,620	609,222
Non-current:		
Heat supply	**468,437**	500,943
Construction, maintenance and design services	**–**	–
	468,437	500,943

Contract liabilities include advances received for the provision and distribution of heat, pipeline connection service and construction and maintenance services.

(b) Revenue recognized in relation to contract liabilities

The following table shows the amounts of revenue recognized in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 RMB'000	2018 RMB'000
Provision and distribution of heat	**544,003**	583,442
Pipeline connection fee	**54,233**	68,952
Construction, maintenance and design services	**329**	4,276
	598,565	656,670

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

(ii) Performance obligations

The Group has elected the practical expedient of not disclosing the remaining performance obligation for the provision and distribution of heat and construction, maintenance and design services rendered because the performance obligation is part of a contract that has an original expected duration of one year or less.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019	2018
	RMB'000	RMB'000
Within 1 year	**53,975**	54,003
Over 1 year	**468,437**	500,943
	522,412	554,946

The above remaining performance obligations expected to be recognized in more than one year relate to the provision of the pipeline connection and heat metering reform services. The amount disclosed above does not include variable consideration which is constrained.

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2019	2018
	RMB'000	RMB'000
Finance costs:		
Interest on interest-bearing bank and other borrowings	**4,254**	10,793
Interest expenses on lease liabilities	**168**	93
Foreign exchange loss	**2,301**	–
Others	**402**	458
Subtotal	**7,125**	11,344
Less: Interest capitalized	**–**	–
	7,125	11,344

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019	2018
	RMB'000	RMB'000
Cost of heat supply	**761,032**	788,576
Cost of construction, maintenance and design services	**513,214**	426,909
	1,274,246	1,215,485
Employee benefit expense (including directors' and chief executive's remuneration as set out in Note 8):		
Wages, salaries and allowances	**103,488**	97,246
Contributions to pension plans	**17,938**	19,449
Housing funds	**12,419**	11,670
Welfare and other expenses	**13,781**	13,449
Service cost (Note 27)	**567**	534
Employee benefit expenses	**148,193**	142,348
Depreciation*	**90,683**	89,210
Amortization*	**5,122**	5,034
Depreciation of right-of-use assets (Note 16)	**1,344**	879
Interest expenses on lease liabilities (Note 16)	**168**	93
Auditor's remuneration	**1,900**	1,900
Rental expense – short term**	**341**	7,158
Maintenance and repair expenses	**2,258**	479
Loss on disposal of items of property, plant and equipment	**–**	12
Impairment on financial and contract assets, net	**10,215**	23,319
Impairment of property, plant and equipment (Note 13)	**7,197**	401
Provision for impairment of inventories	**2,491**	–
Bank interest income (Note 5)	**(8,489)**	(5,412)
Gains from financial assets at fair value through profit or loss (Note 5)	**–**	(2,307)
Government grants (Note 5)	**(16,918)**	(11,641)
Foreign exchange losses, net	**2,301**	–

* The depreciation and amortization, except for depreciation of right-of-use assets, are included in "Cost of sales" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

** The rental expense – short term is included in "Cost of sales" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' emoluments disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019	2018
	RMB'000	RMB'000
Fees	**88**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,741**	1,982
Pension scheme contributions	**194**	218
Performance related bonuses*	**91**	75
	2,114	2,275

* Certain executive directors and supervisors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

The remuneration of each director and supervisor of the Company for the year ended 31 December 2019 is set out below:

Year ended 31 December 2019	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Yang Zhongshi	–	451	–	35	486
Mr. Xu Chungang	–	302	–	35	337
Mr. Shi Mingjun	–	406	–	35	441
Mr. Li Yeji	–	164	48	29	241
	–	1,323	48	134	1,505
Non-executive director:					
Mr. Liu Changchun	–	276	–	35	311
Independent non-executive directors (Note (i)):					
Mr. Wang Yuguo	25	–	–	–	25
Mr. Fu Yachen	25	–	–	–	25
Mr. Poon Pok Man	38	–	–	–	38
	88	–	–	–	88
Supervisors:					
Mr. Wang Fenghua	–	–	–	–	–
Ms. Wang Xuejing	–	–	–	–	–
Ms. Li Xiaoling	–	142	43	25	210
	–	142	43	25	210
	88	1,741	91	194	2,114

Note for 2019:

(i) Mr. Wang Yuguo, Mr. Fu Yachen and Mr. Poon Pok Man were appointed as independent non-executive directors on 19 August 2019.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

The remuneration of each director and supervisor of the Company for the year ended 31 December 2018 is set out below:

Year ended 31 December 2018	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Yang Zhongshi (Note (i))	–	442	–	44	486
Mr. Xu Chungang (Note (i))	–	361	–	29	390
Mr. Shi Mingjun (Note (ii))	–	402	–	44	446
Mr. Li Yeji (Note (i))	–	196	40	31	267
	–	1,401	40	148	1,589
Non-executive director:					
Mr. Liu Changchun (Note (iii))	–	446	–	44	490
Supervisors:					
Mr. Wang Fenghua (Note (iv))	–	–	–	–	–
Ms. Wang Xuejing (Note (v))	–	–	–	–	–
Ms. Li Xiaoling (Note (vi))	–	135	35	26	196
	–	135	35	26	196
	–	1,982	75	218	2,275

Notes for 2018:

(i) Mr. Yang Zhongshi, Mr. Xu Chungang and Mr. Li Yeji were appointed as executive directors effective from 30 May 2018.

(ii) Mr. Shi Mingjun was appointed as an executive director effective from 7 August 2018.

(iii) Mr. Liu Changchun was appointed as a non-executive director effective from 30 May 2018.

(iv) Mr. Wang Fenghua, who is the chairman of the labor union of Changchun Heating Group, was appointed as the chairman of the supervisory committee effective from 30 May 2018.

(v) Ms. Wang Xuejing, who is an employee of a third party, was appointed as a supervisor effective from 30 May 2018.

(vi) Ms. Li Xiaoling was appointed as an employee representative supervisor effective from 30 May 2018.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors and one senior executive during the year ended 31 December 2019 (2018: four directors and one senior executive). Details of directors' and supervisors' remuneration are set out in Note 8 above. Details of the remuneration for the remaining highest paid employee who is not a director or a supervisor of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**235**	203
Performance bonuses	**–**	58
Pension scheme contributions	**35**	41
	270	302

The number of non-director and non-supervisor highest paid employee whose remuneration fell within the following band is as follows:

	2019 Number of employees	2018 Number of employees
Nil to HK$1,000,000	**1**	1

10. INCOME TAX EXPENSE

The Group's major components of income tax expense are as follows:

	2019 RMB'000	2018 RMB'000
Current income tax	**51,802**	45,555
Deferred tax	**(5,469)**	(8,949)
Total tax charge for the year	**46,333**	36,606

10. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	**180,304**	139,283
Tax at the statutory tax rate of 25%	**45,076**	34,821
Effect of lower tax rates of certain subsidiaries	**(296)**	(30)
Profit attributable to a joint venture	**(84)**	(375)
Non-deductible expenses	**1,936**	2,190
Others	**(299)**	–
	46,333	36,606

The Company's PRC subsidiaries are subject to income tax at 25% on their respective taxable incomes as calculated in accordance with the CIT Law and its relevant regulations (the "Actual Method") except for Heating Engineering Design and Changre Electrical Apparatus, which are qualified as small low-profit enterprises. For the part of annual taxable income less than or equal to RMB1 million, the taxable income should be deducted by 25% and the income tax rate is 20%; for the part of annual taxable income exceeding RMB1 million but not exceeding RMB3 million, the taxable income should be deducted by 50% and the income tax rate is 20%.

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.17 per share (2018: nil)	**79,339**	–

The Board of directors resolved on 30 March 2020 that RMB0.17 per share is to be distributed to the shareholders for the year ended 31 December 2019, 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.

12. EARNINGS PER SHARE

The basic and diluted earnings per share amounts for the reporting period were calculated as follows:

	2019	2018
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**133,971**	102,677
Weighted average number of ordinary shares		
Basic	**379,175,000**	350,000,000
Diluted	**379,175,000**	350,000,000
Earnings per share attributable to owners of the Company (RMB per share):		
Basic	**0.35**	0.29
Diluted	**0.35**	0.29

The Company did not have any outstanding shares with potential dilutive effect during the years ended 31 December 2019 and 2018. Accordingly, the diluted earnings per share amounts are the same as the basic earnings per share amounts.

The weighted average number of ordinary shares used to calculate the basic and diluted earnings per share for the year ended 31 December 2019 included the weighted average of 116,700,000 ordinary shares issued in connection with the Company's Listing and the original 350,000,000 ordinary shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Pipeline RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Motor vehicle RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost:							
At 1 January 2018	303,667	1,373,004	609,639	40,781	26,168	29,994	2,383,253
Distribution to the Shareholder upon completion of the Reorganization	(301,388)	(572)	(248,534)	(3,017)	(12,795)	(6,190)	(572,496)
Additions	–	–	1,389	2,324	520	32,062	36,295
Transfers	–	10,580	24,662	4,207	–	(39,449)	–
Disposals	–	–	(64)	–	(833)	–	(897)
At 31 December 2018 and 1 January 2019	2,279	1,383,012	387,092	44,295	13,060	16,417	1,846,155
Additions	–	366	1,465	2,865	214	38,352	43,262
Transfers	–	22,278	14,357	3,188	–	(39,823)	–
Disposals	–	–	–	–	(25)	–	(25)
At 31 December 2019	2,279	1,405,656	402,914	50,348	13,249	14,946	1,889,392
Accumulated depreciation:							
At 1 January 2018	(89,123)	(646,555)	(342,710)	(13,515)	(17,490)	–	(1,109,393)
Distribution to the Shareholder upon completion of the Reorganization	88,006	518	185,430	725	11,095	–	285,774
Provision	(64)	(53,942)	(27,693)	(6,159)	(1,350)	–	(89,208)
Disposals	–	–	59	–	458	–	517
At 31 December 2018 and 1 January 2019	(1,181)	(699,979)	(184,914)	(18,949)	(7,287)	–	(912,310)
Provision	(64)	(54,663)	(28,012)	(6,688)	(1,254)	–	(90,681)
At 31 December 2019	(1,245)	(754,642)	(212,926)	(25,637)	(8,541)	–	(1,002,991)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Pipeline RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Motor vehicle RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Impairment:							
At 1 January 2018	–	–	–	–	–	(4,158)	(4,158)
Distribution to the Shareholder upon completion of the Reorganization	–	–	–	–	–	555	555
Provision	–	–	–	–	–	(401)	(401)
At 31 December 2018 and 1 January 2019	–	–	–	–	–	(4,004)	(4,004)
Provision	–	–	(4,829)	–	–	(2,368)	(7,197)
At 31 December 2019	–	–	(4,829)	–	–	(6,372)	(11,201)
Net carrying amount:							
At 31 December 2018 and 1 January 2019	1,098	683,033	202,178	25,346	5,773	12,413	929,841
At 31 December 2019	1,034	651,014	185,159	24,711	4,708	8,574	875,200

None of the Group's property, plant and equipment was pledged to secure the Group's interest-bearing bank and other borrowings as of 31 December 2019 (2018: nil), all buildings had ownership certificates.

Impairment loss for individual assets

The electric heating system of a residential building has become idle since October 2019. The Directors of the Group considered that the electric heating system can no longer be utilised in the future. Hence, the Group made an impairment provision of RMB4.8 million during the year ended 31 December 2019.

The Group recognised an impairment of engineering materials amounting to RMB2.4 million for the year ended 31 December 2019 for those items that can no longer be utilised in the future.

14. DEFERRED TAX ASSETS

	Contract liabilities RMB'000	Unrealized profits RMB'000	Accrued expenses RMB'000	Provision for impairment RMB'000	Deferred income RMB'000	Tax losses RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018	8,768	1,719	6,741	11,448	6,616	–	35,292
Distribution to the Shareholder upon completion of the Reorganization	(8,768)	(1,719)	(4,043)	(3,687)	(6,616)	–	(24,833)
Deferred tax credited to profit or loss during the year	–	343	606	5,930	2,070	–	8,949
At 31 December 2018 and 1 January 2019	–	343	3,304	13,691	2,070	–	19,408
Deferred tax credited/(debited) to profit or loss during the year	**–**	**429**	**(852)**	**3,535**	**2,280**	**77**	**5,469**
At 31 December 2019	**–**	**772**	**2,452**	**17,226**	**4,350**	**77**	**24,877**

15. INVESTMENT IN A JOINT VENTURE

	2019 RMB'000	2018 RMB'000
Share of net assets	**57,561**	62,692

Particulars of the Group's joint venture is as follows:

Name	Paid-in capital	Place of registration and business	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Changchun FAW Sihuan Kinetic Company Limited ("FAW Sihuan")	RMB20,000,000	Jilin, Mainland China	50.00%	50.00%	50.00%	Provision and distribution of heat

FAW Sihuan, which is considered a material joint venture of the Group and a heat services provider primarily engaged in boiler-generated heat production, supply and sale, is accounted for using the equity method.

15. INVESTMENT IN A JOINT VENTURE (CONTINUED)

The following table illustrates the summarized financial information in respect of FAW Sihuan adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2019 RMB'000	2018 RMB'000
Current assets	**125,866**	128,680
Non-current assets	**60,496**	64,567
Current liabilities	**(45,175)**	(50,402)
Non-current liabilities	**(26,065)**	(17,461)
Equity	**115,122**	125,384
Group's share in equity - 50%	**57,561**	62,692
Group's carrying amount of the investment	**57,561**	62,692

	2019 RMB'000	2018 RMB'000
Revenue	**78,657**	85,814
Cost of sales	**(73,846)**	(79,497)
Other operating income	**3,110**	3,238
Administrative expenses	**(6,734)**	(5,532)
Profit before tax	**1,187**	4,023
Income tax expense	**(516)**	(1,020)
Profit for the year	**671**	3,003
Total comprehensive income for the year	**671**	3,003
Group's share of profit, for the year	**336**	1,501

16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(a) Right-of-use assets

	2019	2018
	RMB'000	RMB'000
Cost:		
As at beginning of year	**6,169**	47,023
Addition	**52**	4,569
Distribution to the Shareholder upon completion of the Reorganization	**–**	(45,423)
As at end of the year	**6,221**	6,169
Accumulated depreciation:		
As at beginning of year	**(2,340)**	(17,166)
Depreciation recognized during the year	**(1,344)**	(879)
Distribution to the Shareholder upon completion of the Reorganization	**–**	15,705
As at end of the year	**(3,684)**	(2,340)
Net book value		
As at end of year	**2,537**	3,829

(b) Lease liabilities

	2019	2018
	RMB'000	RMB'000
Carrying amount at the beginning of year	**3,839**	–
Addition	**52**	4,569
Interest expense	**168**	93
Payments during the year	**(1,427)**	(823)
Carrying amount at the end of year	**2,632**	3,839
Analysed into:		
Current portion	**1,355**	1,493
Non-current portion	**1,277**	2,346

17. OTHER NON-CURRENT ASSETS

The balance represented prepaid office decoration expenses.

18. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Materials and supplies	**12,139**	11,912
Coal	**5,088**	5,088
	17,227	17,000
Less:		
Impairment of inventories	**(8,122)**	(5,631)
	9,105	11,369

Movements in the provision for impairment are as follows:

	2019	2018
	RMB'000	RMB'000
Impairment:		
At beginning of the year	**5,631**	5,945
Distribution to the Shareholder upon completion of the Reorganization	**–**	(314)
Impairment loss recognised	**2,491**	–
At end of the year	**8,122**	5,631

There were no pledged inventories as at 31 December 2019 (31 December 2018: nil).

19. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**349,090**	224,089
Less: Provision for impairment	**(40,135)**	(23,941)
	308,955	200,148

Trade receivables were unsecured and non-interest-bearing.

An ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**286,361**	185,862
Between 1 and 2 years	**18,677**	12,790
Between 2 and 3 years	**3,125**	926
Between 3 and 4 years	**477**	472
Between 4 and 5 years	**315**	98
Over 5 years	**–**	–
	308,955	200,148

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**23,941**	27,188
Distribution to the Shareholder upon completion of the Reorganization	**–**	(12,029)
Impairment loss recognized	**17,600**	10,948
Impairment loss reversed	**(1,406)**	(2,166)
At the end of the year	**40,135**	23,941

19. TRADE RECEIVABLES (CONTINUED)

Impairment under IFRS 9

The Group had provision and distribution of heat and provided construction, maintenance and design services to the Shareholder and fellow subsidiaries. The Group traded with such enterprises and had never had any receivables that could not be recovered. Therefore, the directors were of the opinion that no impairment allowance was necessary for the Shareholder and fellow subsidiaries considering the current conditions and forecasts of future economic conditions, as appropriate.

The Group applies the simplified approach to the provision for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables (excluding receivables from the Shareholder and fellow subsidiaries). Measurement the expected credit losses on trade receivables excluding receivables from the Shareholder and fellow subsidiaries has been grouped based on shared credit risk characteristics and the ageing.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019	The Shareholder and fellow subsidiaries	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Heat supply - Normal								
Expected credit loss rate	–	5.11%	21.46%	50.15%	71.51%	86.05%	100.00%	
Gross carrying amount (RMB'000)	–	14,679	9,846	1,703	186	337	3,585	30,336
Expected credit losses (RMB'000)	–	750	2,113	854	133	290	3,585	7,725
Heat supply - Basic heating fee*								
Expected credit loss rate	–	7.28%	12.74%	17.61%	23.84%	31.15%	100.00%	
Gross carrying amount (RMB'000)	–	3,158	2,159	869	474	366	2,152	9,178
Expected credit losses (RMB'000)	–	230	275	153	113	114	2,152	3,037
Construction, maintenance and design services								
Expected credit loss rate	–	7.74%	20.46%	73.98%	91.28%	96.60%	100.00%	
Gross carrying amount (RMB'000)	12,120	283,417	6,282	5,941	367	500	949	309,576
Expected credit losses (RMB'000)	–	21,926	1,285	4,395	335	483	949	29,373

* According to the relevant government regulation, users of heat supply still have to pay the basic heating fee, which is 20% of the normal heating fee, after completing the formalities of heat supply suspension.

19. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2018	The Shareholder and fellow subsidiaries	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Heat supply - Normal								
Expected credit loss rate	–	2.59%	17.78%	44.39%	69.82%	85.71%	100.00%	
Gross carrying amount (RMB'000)	–	24,375	1,951	660	391	427	3,265	31,069
Expected credit losses (RMB'000)	–	632	347	293	273	366	3,265	5,176
Heat supply - Basic heating fee*								
Expected credit loss rate	–	17.76%	37.56%	54.41%	72.21%	90.57%	100.00%	
Gross carrying amount (RMB'000)	–	2,815	1,121	658	529	350	2,464	7,937
Expected credit losses (RMB'000)	–	500	421	358	382	317	2,464	4,442
Construction, maintenance and design services								
Expected credit loss rate	–	8.01%	19.38%	48.10%	65.16%	98.08%	100.00%	
Gross carrying amount (RMB'000)	40,669	130,727	11,614	501	597	260	715	185,083
Expected credit losses (RMB'000)	–	10,472	2,250	241	389	255	715	14,322

* According to the relevant government regulation, users of heat supply still have to pay the basic heating fee, which is 20% of the normal heating fee, after completing the formalities of heat supply suspension.

20. CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Contract assets arising from construction and maintenance services	**213,930**	283,334
Less: Provision for impairment	**(15,069)**	(21,119)
	198,861	262,215

The contract assets primarily relate to the Group's right to consideration for work completed but not billed because the rights are conditioned on the Group's future performance in satisfying the respective performance obligations at the reporting date in respect of construction contracts. Upon completion of construction and acceptance by the customers, the amounts recognized as contract assets are reclassified to trade receivables.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**204,862**	271,404
More than one year	**9,068**	11,930
Total	**213,930**	283,334

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**21,119**	6,630
Impairment loss recognized	**–**	14,489
Impairment loss reversed	**(6,050)**	–
At the end of the year	**15,069**	21,119

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses for the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer base.

20. CONTRACT ASSETS (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

2019 Expected loss rate %	2019 Contract assets RMB'000	2019 Provision RMB'000	2018 Expected loss rate %	2018 Contract assets RMB'000	2018 Provision RMB'000
7.04%	**213,930**	**15,069**	7.45%	283,334	21,119

21. PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments*	**369,538**	304,516
Staff advances	**571**	376
Deposits	**1,881**	2,696
Due from related parties (Note 33(c))	**–**	4,422
Due from the Shareholder (Note 33(c))	**51**	4,152
Payment on behalf of other parties	**–**	12,750
Others	**7,575**	6,475
	379,616	335,387
Less: Provision for impairment	**(142)**	(71)
Prepayments*	**379,474**	335,316

* Prepayments mainly include prepayments for heat procurement

21. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

The movements in loss allowance for impairment are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**71**	2,008
Distribution to the Shareholder upon completion of the Reorganization	**–**	(1,985)
Impairment loss recognized	**71**	48
Impairment loss reversed	**–**	–
At the end of the year	**142**	71

Impairment under IFRS 9

Where applicable upon financial assets above, an impairment analysis is performed at the end of each reporting period by considering the probability of default by applying a loss rate approach with reference to the historical record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No significant impairment was provided during the reporting period.

22. OTHER CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Deductible value-added tax	**3,850**	2,127
Deferred expenses	**5,347**	5,347
Prepaid transaction cost pursuant to initial public offering	**–**	12,099
Others	**46**	294
	9,243	19,867

23. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**699,940**	358,884
Cash and bank balances denominated in:		
– RMB	**699,940**	358,884

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An ageing analysis of the trade payables as the end of each reporting period, based on the invoice dates, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**332,668**	144,544
More than one year	**65,469**	176,270
	398,137	320,814

25. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Payables for acquisition of property, plant and equipment	**26,884**	39,699
Deposits	**891**	760
Other tax payables	**20,935**	23,706
Salaries, bonuses and staff welfare benefits payable	**21,828**	16,985
Due to related parties (Note 33(c))	**1,326**	3,553
Other	**18,363**	12,323
	90,227	97,026

Other payables of the Group are unsecured, non-interest-bearing and have no fixed terms of repayment.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate	**Maturity**	**RMB'000**	Effective interest rate	Maturity	RMB'000
Current						
Bank borrowings - unsecured	**4.35%**	**2020**	**10,715**	–	–	–
Other borrowings - secured	**–**	**–**	**–**	10%	2019	101,000
Other borrowings - unsecured	**–**	**–**	**–**	0-12%	2019	7,000
			10,715			108,000

	2019 RMB'000	2018 RMB'000
Analysed into:		
Within one year	**10,715**	108,000
	10,715	108,000

	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings denominated in		
– RMB	**10,715**	108,000
	10,715	108,000

The Group's interest-bearing bank and other borrowings are all with fixed interest rates.

27. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS

According to relevant local regulation, the Group has a defined benefit plan to pay for supplemental medical insurance for approximately 70 (2018: 146) of its employees for the year ended 31 December 2019. The Group has a defined benefit plan to pay for heat supply and other subsidies for approximately 789 (2018: 975) employees for the year ended 31 December 2019.

	2019 **RMB'000**	2018 RMB'000
Consolidated statement of financial position:		
Early retirement (Note a)		
Present value of early retirement obligations	**–**	–
Less: current portion	**–**	–
Non-current portion	**–**	–
Supplemental benefit obligations (Note b)		
Present value of supplemental benefit obligations	**9,808**	11,754
Less: current portion	**(617)**	(1,183)
Non-current portion	**9,191**	10,571
Total current portion	**617**	1,183
Total non-current portion	**9,191**	10,571

	2019 **RMB'000**	2018 RMB'000
Consolidated statement of profit or loss and other comprehensive income:		
Early retirement and supplemental benefit obligations		
– Supplemental benefit obligations	**969**	992
Remeasurement of supplemental benefit obligations		
– (Gains)/losses from change in actuarial assumptions	**(2,264)**	361

27. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS (CONTINUED)

The movements of early retirement and supplemental benefit obligations over the reporting period are as follows:

(a) Early retirement

	2019 RMB'000	2018 RMB'000
At 1 January	**–**	1,410
Distribution to the Shareholder upon completion of the Reorganization	**–**	(1,410)
At 31 December	**–**	–

(b) Supplemental benefit obligations

	2019 RMB'000	2018 RMB'000
At 1 January	**11,754**	25,553
Distribution to the Shareholder upon completion of the Reorganization	**–**	(14,762)
Amount recognized in profit or loss for the current year		
– Service cost	**567**	534
– Net interest expense	**402**	458
– Impact of personnel transfer out	**(1,747)**	–
Re-measurement amount recognized in other comprehensive income		
– Due to experience adjustment	**(435)**	–
– Actuarial gains for the current year	**(82)**	361
Payment of benefits	**(651)**	(390)
At 31 December	**9,808**	11,754

The principal actuarial assumptions used were as follows:

	2019 RMB'000	2018 RMB'000
Discount rate - early retirement benefits	**Not applicable**	Not applicable
Discount rate - supplemental heat supply and other subsidies	**3.60%**	3.55%
Discount rate - supplemental medical insurance	**2.30%**	2.65%
Turnover rate	**0.00%**	0.00%

27. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS (CONTINUED)

The sensitivity analysis of the principal actuarial assumptions adopted in the present value of the defined benefit liability of the Group is as follows:

		Impact on present value of defined benefit liability	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate - supplemental heat supply and other subsidies	0.25%	Decrease by 4.37%	Increase by 4.67%
Discount rate - supplemental medical insurance	0.25%	Decrease by 0.19%	Increase by 0.19%
Turnover rate	1.00%	Decrease by 6.48%	Not applicable

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity analysis of the defined benefit obligation to significant actuarial assumptions, the projected unit credit method has been applied.

28. DEFERRED INCOME

The Group's deferred income represents government grants, which are related to assets.

	2019	2018
	RMB'000	RMB'000
At the beginning of year	**23,325**	26,465
Distribution to the Shareholder upon completion of the Reorganization	**–**	(10,307)
Additions	**11,564**	8,660
Amortized during the year	**(2,447)**	(1,493)
At the end of year	**32,442**	23,325
Less: Portion classified as current liabilities	**(2,555)**	(1,793)
Non-current portion	**29,887**	21,532

29. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Ordinary shares, issued and fully paid		
350,000,000 domestic state-owned ordinary shares of RMB1.00 each	**350,000**	350,000
116,700,000 (2018: nil) H Shares of RMB1.00 each	**116,700**	–
	466,700	350,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue (thousands)	Share capital RMB'000
At 1 January 2018	–	–
Shareholding reform (Note (a))	350,000	350,000
At 31 December 2018 and 1 January 2019	350,000	350,000
Share issue (Note (b))	116,700	116,700
At 31 December 2019	**466,700**	**466,700**

Notes:

(a) The Company was converted into a joint stock company with limited liability on 30 May 2018. Pursuant to the approval of SASAC Changchun, the Company's equity of RMB400,000,000 was converted into share capital with an amount of RMB350,000,000 and capital reserve with an amount of RMB50,000,000 of the joint stock company with limited liability. The registered capital of the Company upon conversion was RMB350,000,000, which was divided into 350,000,000 ordinary shares of RMB1.00 each.

(b) On 24 October 2019, the Company issued an aggregate of 116,700,000 H Shares and that the Over-allotment Option was not exercised, at a price of HK$2.35 per H Share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors.

All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company. All shares rank equally with regard to the Company's residual assets.

30. RESERVES

(a) Paid-in capital and capital reserve

For the purpose of these financial statements, the paid-in capital of the Group represents the paid-in capital of the Company before it was converted into a joint stock company with limited liability.

Capital reserve includes share premium and other capital reserve.

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the Company's IPO on 24 October 2019.

Other capital reserve mainly represents the difference between the total amount of the nominal value of shares issued and the amount of the net assets injected by the equity shareholders before the IPO in 2019.

On 23 April 2018, the Shareholder contributed RMB50,000,000 as paid-in capital to the Company. On 26 April 2018, upon approvals by SASAC Changchun, Changchun Heating Group, Changchun State-owned Capital Investment Operation (Group) Co., Ltd. ("Changchun SCIO Group") and the Company entered into an agreement, pursuant to which Changchun SCIO Group became the new shareholder and agreed to inject RMB28,000,000 in the Company, of which RMB3,763,400 was included as paid-in capital of the Company and the remaining RMB24,236,600 was included as capital reserve of the Company (the "Capital Injection"). After the completion of the Capital Injection, Changchun SCIO Group became a shareholder of the Company, holding a 7% equity interest in the Company, while Changchun Heating Group held a 93% equity interest in the Company. The paid-in capital of the Company was increased to RMB53,763,400.

On 1 January 2018, Changchun Heating Group transferred its principal operations and businesses (the "Core Operations") to the Company for nil consideration. Upon completion of the Reorganization as of 1 January 2018, the "Core Operations" as a capital reserve amounting to RMB322,000,000 was capitalized from the Shareholder to the Company.

(b) Statutory reserve fund

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of its profit after tax as determined in accordance with Accounting Standards for Business Enterprises of the PRC and regulations applicable to the Company to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalized as the Company's share capital, provided that the remaining amount of such reserve after the capitalization shall not be less than 25% of the share capital of the Company.

(c) Safety fund

The safety fund represents the safety production fund, which is accrued based on revenue last year in accordance with the circular of the Ministry of Finance on the enterprise safety production.

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Due to related parties RMB'000	Lease liabilities RMB'000	Total RMB'000
As at 1 January 2019	**108,000**	**3,553**	**3,839**	**115,392**
Proceeds from bank and other borrowings	**10,715**	**–**	**–**	**10,715**
Repayment of bank and other borrowings	**(108,000)**	**–**	**–**	**(108,000)**
Repayment to related parties	**–**	**(2,227)**	**–**	**(2,227)**
Payment of principal of lease liabilities	**–**	**–**	**(1,039)**	**(1,039)**
Payment of interest expenses of lease liabilities	**–**	**–**	**(168)**	**(168)**
Changes from financing cash flows	**(97,285)**	**(2,227)**	**(1,207)**	**(100,719)**
Non-cash transactions	**–**	**–**	**–**	**–**
As at 31 December 2019	**10,715**	**1,326**	**2,632**	**14,673**

	Interest-bearing bank and other borrowings RMB'000	Due to related parties RMB'000	Lease liabilities RMB'000	Total RMB'000
As at 1 January 2018	266,521	198,592	–	465,113
Proceeds from bank and other borrowings	72,000	–	–	72,000
Repayment of bank and other borrowings	(67,000)	–	–	(67,000)
Payment of principal of lease liabilities	–	–	(730)	(730)
Payment of interest expenses of lease liabilities	–	–	(93)	(93)
Repayment to related parties	–	(62,043)	–	(62,043)
Changes from financing cash flows	5,000	(62,043)	(823)	(57,866)
Changes from investing cash flows	–	1,081	–	1,081
Non-cash transactions	(163,521)	(134,077)	4,662	(292,936)
As at 31 December 2018	108,000	3,553	3,839	115,392

32. COMMITMENTS AND LEASE ARRANGEMENTS

(a) Capital commitments

Capital commitments contracted for as at the end of each reporting period but not recognized in these financial statements are as follows:

	2019	2018
	RMB'000	RMB'000
Contracted, but not provided for	**–**	20,467

As at 31 December 2019, there is no capital commitment compared to that in 2018, which is related to the purchase of intangible assets and property, plant and equipment.

(b) Operating lease arrangements – As lessor

The Group leased out its investment properties under operating lease arrangements, with negotiation for terms ranging from one to fifteen years. At the end of each reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2019	2018
	RMB'000	RMB'000
Within one year	**100**	213
After one year and within five years	**400**	400
After five years	**758**	759
	1,258	1,372

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the reporting period:

	2019 RMB'000	2018 RMB'000
Provision of services to		
A joint venture of the Company		
– FAW Sihuan	**77**	986
Fellow subsidiaries		
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	**1,608**	–
– Jilin Province Changre Property Limited	**1,394**	46
– Jilin Province Heating Group Limited	**–**	8,226
– Jilin Heating Group Tumen Public Enterprise Co., Ltd.	**15,081**	–
The Shareholder		
– Changchun Heating Group	**19,770**	39,311
	37,930	48,569

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the reporting period (Continued):

	2019 RMB'000	2018 RMB'000
Purchases of products from		
Associates of the Shareholder		
– Jilin Province New Model Pipes Co., Ltd.	**17,529**	16,520
– Jilin Heating Intelligent Equipment Co., Ltd.	**3,982**	8,013
A joint venture of the Company		
– Jilin Hengxin Electricity Co. Ltd., a subsidiary of FAW Sihuan	**1,034**	1,253
	22,545	25,786
Sales of goods to		
A joint venture of the Company		
– FAW Sihuan	**–**	207
A fellow subsidiary		
– Inner Mongolia ChangRe Heating Group Co. Ltd.	**–**	6
The Shareholder		
– Changchun Heating Group	**12**	17
	12	230
Rental expense - short term		
The Shareholder		
– Changchun Heating Group	**341**	7,158

(b) Other transactions with related parties

In 2018, the Group entered into two lease agreements for office with its shareholder, Changchun Heating Group, for which right-of-use assets of RMB1,980,000 were recognized. The depreciation of right-of-use assets amounting to RMB660,000 and RMB440,000 were recognized for the years ended 31 December 2019 and 2018, respectively.

The directors of the Company are of the opinion that the above transactions with related parties disclosed in (a) and (b) were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with related parties:

The Group's balances with its related parties are as follows:

	2019 RMB'000	2018 RMB'000
Trade receivables due from		
Fellow subsidiaries		
– Changchun Yatai Heat Inglis Co., Ltd.	**647**	–
– Jilin Province Heating Group Limited	**–**	1,122
– Changre Group Jilin Changtie Public Utilities Co., Ltd.	**20**	81
The Shareholder		
– Changchun Heating Group	**11,453**	39,466
A joint venture of the Company		
– FAW Sihuan	**–**	468
	12,120	41,137
Other receivables due from		
Fellow subsidiaries		
– Changchun Runfeng Bath Service Co., Ltd.	**–**	4,281
– Inner Mongolia Chuncheng Heating Services Co. Ltd.	**–**	141
The Shareholder		
– Changchun Heating Group	**51**	4,152
	51	8,574

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with related parties (Continued):

The Group's balances with its related parties are as follows (Continued):

	2019 RMB'000	2018 RMB'000
Contract assets due from		
Fellow subsidiaries		
– Jilin Province Heating Group Limited	**–**	7,911
– Jilin Province Changre Property Limited	**–**	5
– Jilin Heating Group Tumen Public Enterprise Co., Ltd.	**1,110**	–
A joint venture of the Company		
– FAW Sihuan	**–**	66
The Shareholder		
– Changchun Heating Group	**18,032**	4,728
	19,142	12,710
Prepayments to		
A fellow subsidiary		
– Inner Mongolia Chuncheng Heating Services Co. Ltd.	**–**	800
	–	800
Trade payables due to		
Associates of the Shareholder		
– Jilin Province New Model Pipes Co., Ltd.	**11,629**	15,255
– Jilin Heating Intelligent Equipment Co., Ltd.	**5,105**	5,643
The Shareholder		
– Changchun Heating Group	**341**	818
Joint ventures of the Company		
– FAW Sihuan	**–**	1,454
– Jilin Hengxin Electricity Co. Ltd	**1,074**	–
	18,149	23,170

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with related parties (Continued):

The Group's balances with its related parties are as follows (Continued):

	2019 **RMB'000**	2018 RMB'000
Contract liabilities due to		
Fellow subsidiaries		
– Jilin Heating Group Tumen Public Enterprise Co., Ltd.	**7,938**	–
– Changchun Yatai Heat Inglis Co., Ltd.	**89,929**	–
	97,867	–
Other payables due to		
A fellow subsidiary		
– Jilin Province Heating Group Limited	**53**	–
Associates of the Shareholder		
– Jilin Province New Model Pipes Co., Ltd.	**–**	481
– Jilin Heating Intelligent Equipment Co., Ltd.	**125**	600
The Shareholder		
– Changchun Heating Group	**1,148**	2,472
	1,326	3,553
Lease liabilities due to		
The Shareholder		
– Changchun Heating Group	**680**	1,330
Other borrowings due to		
An associate of the Shareholder		
– Jilin Province Xinda Investment Management Co., Ltd.	**–**	103,000
A fellow subsidiary		
– Changchun Xinda Construction Project Management Co., Ltd.	**–**	5,000
	–	108,000

Related party balances, including trade receivables due from related parties, contract assets due from related parties, prepayments due from related parties, and trade payables due to related parties are trade in nature.

Related party balances, including other receivables due from related parties, other payables due to related parties and other borrowings due to related parties, are non-trade in nature.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Compensation of key management personnel

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**2,513**	2,934

Further details of directors' emoluments are included in Note 8 to the financial statements.

(e) Transactions with other government-related entities in the PRC

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "government-related entities"). Changchun Heating Group, the parent of the Company and the ultimate holding company of the Company, is a PRC state-owned enterprise and these government-related entities are also considered as related parties of the Group in this respect.

Apart from the transactions with Changchun Heating Group mentioned above, the Group also conducts some business activities with government-related entities in the ordinary course of business. These transactions are carried out on terms similar to those that would be entered into with non-government-related entities. Transactions with other government-related entities include but are not limited to the following:

– Provision and distribution of heat;

– Maintenance and construction services;

– Purchase of heating resource; and

– Depositing and borrowing money.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Transactions with other government-related entities in the PRC (Continued)

The tariff of heat supply is regulated by the relevant government authorities. The Group prices its other services and products based on commercial negotiations. The Group has also established its approval processes for the provision and distribution of heat, purchase of products and services and its financing policy for borrowings. Such approval processes and financing policy do not depend on whether the counterparties are government-related entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's approval processes and financing policy, and what information would be necessary for an understanding of the potential effect of the relationships on the financial statements, the directors of the Company are of the opinion that further information about the following transactions that are collectively significant is required for disclosure:

(i) The Group deposits most of its cash in government-related financial institutions, and also obtains short-term and long-term loans from these financial institutions in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China.

(ii) Revenue from the provision and distribution of heat and construction and maintenance services to the companies which are government-related entities accounted for 48% (2018: 21%) of the total revenue in 2019.

(iii) Significant transactions with government-related entities also included a large portion of heat procurement amounting to RMB421,103,000 in 2019 (2018: RMB312,819,000).

(iv) For the year ended 31 December 2019, the Group principally derived the revenue for the construction, maintenance and design services from China Construction Third Engineering Bureau Co. Ltd. (中建三局集團有限公司) and China Railway Ninth Bureau Group Fourth Engineering Co., Ltd. (中鐵九局集團第四工程有限公司) amounting to RMB394,628,000. For the year ended 31 December 2018, the Group principally derived the revenue for the construction, maintenance and design services from Jilin Railway Survey and Design Institute Co., Ltd. (吉林鐵道勘察設計有限公司) and China Railway Ninth Bureau Group Fourth Engineering Co., Ltd. (中鐵九局集團第四工程有限公司) amounting to RMB270,643,000.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2019

Financial assets	Financial assets at amortized cost	Total
	RMB'000	RMB'000
Trade receivables	308,955	308,955
Contract assets	198,861	198,861
Financial assets included in other receivables	9,936	9,936
Cash and cash equivalents	699,940	699,940
	1,217,692	1,217,692

Financial liabilities	Financial liabilities at amortized cost	Total
	RMB'000	RMB'000
Interest-bearing bank and other borrowings - current	10,715	10,715
Lease liabilities	2,632	2,632
Trade payables	398,137	398,137
Financial liabilities included in other payables and accruals	47,424	47,424
	458,908	458,908

34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

As at 31 December 2018

Financial assets	Financial assets at amortized cost RMB'000	Total RMB'000
Trade receivables	200,148	200,148
Contract assets	262,215	262,215
Financial assets included in other receivables	30,800	30,800
Cash and cash equivalents	358,884	358,884
	852,047	852,047

Financial liabilities	Financial liabilities at amortized cost RMB'000	Total RMB'000
Interest-bearing bank and other borrowings - current	108,000	108,000
Lease liabilities	3,839	3,839
Trade payables	320,814	320,814
Financial liabilities included in other payables and accruals	56,335	56,335
	488,988	488,988

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values and those carried at fair value, are as follows:

	2019		2018	
	Carrying amounts RMB'000	**Fair values RMB'000**	Carrying amounts RMB'000	Fair values RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**–**	**–**	–	–
Financial liabilities				
Interest-bearing bank and other borrowings	**10,715**	**10,715**	108,000	108,000

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments and other receivables, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

At the end of each reporting period, the finance department analyzes the movements in the values of financial instruments.

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings at the end of each reporting period was assessed to be insignificant.

Fair value hierarchy

The following illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

The Group did not have any assets measured at fair value as at 31 December 2019 and 2018.

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value at the end of the reporting period.

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 for both financial assets and financial liabilities. The Group's policy is to recognize transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans and bank borrowings and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below.

(a) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and bank borrowings. There is no significant impact on interest rate risk.

(b) Foreign currency risk

These financial statements are presented in RMB, which is the Company's presentation currency. The currency is not freely convertible into foreign currencies. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of the currency into foreign currencies. The value of the currency is subject to changes in PRC government policies and international economic and political developments affecting the supply and demand in the China Foreign Exchange Trading System market. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China.

(c) Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of management.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each reporting period. The amounts presented are gross carrying amounts for financial assets.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk (Continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	**–**	**–**	**–**	**308,955**	**308,955**
Contract assets	**–**	**–**	**–**	**198,861**	**198,861**
Financial assets included in prepayments and other receivables					
– Normal**	**9,936**	**–**	**–**	**–**	**9,936**
– Doubtful**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents					
– Not yet past due	**699,940**	**–**	**–**	**–**	**699,940**
Total	**709,876**	**–**	**–**	**507,816**	**1,217,692**

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	200,148	200,148
Contract assets	–	–	–	262,215	262,215
Financial assets included in prepayments and other receivables					
– Normal**	30,800	–	–	–	30,800
– Doubtful**	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	358,884	–	–	–	358,884
Total	389,684	–	–	462,363	852,047

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in Note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans and bank borrowings.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2019

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	**–**	**398,137**	**–**	**–**	**398,137**
Other payables and accruals	**–**	**47,424**	**–**	**–**	**47,424**
Interest-bearing bank and other borrowings	**–**	**11,038**	**–**	**–**	**11,038**
Lease liabilities	**–**	**1,427**	**1,419**	**–**	**2,846**
	–	**458,026**	**1,419**	**–**	**459,445**

As at 31 December 2018

	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	320,814	–	–	320,814
Other payables and accruals	–	56,335	–	–	56,335
Interest-bearing bank and other borrowings	–	115,477	–	–	115,477
Lease liabilities	–	1,535	2,493	–	4,028
	–	494,161	2,493	–	496,654

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Capital management

The primary objective of the Group's capital management is to ensure that it maintains strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, or return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes for the years ended 31 December 2019 and 2018.

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business.

The Group is not subject to external mandatory capital requirements and monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated by interest-bearing liabilities deducting cash and cash equivalents. Total capital is calculated by total equity presented in the consolidated statement of financial position plus net debt.

As at 31 December 2019 and 2018, the Group's gearing ratios are as follows

	2019 **RMB'000**	2018 RMB'000
Total interest-bearing liabilities*	**13,347**	108,000
Less: Cash and cash equivalents	**(699,940)**	(358,884)
Net cash	**(686,593)**	(250,884)
Total equity	**840,450**	502,316
Total capital	**153,857**	251,432
Gearing ratio	**N/A**	N/A

* Total interest-bearing liabilities comprises interest-bearing bank and other borrowings and lease liabilities.

37. EVENTS AFTER THE REPORTING PERIOD

As of the date of approval of the financial statements, the Group had no significant events after the reporting period that need to be disclosed.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting year is as follows:

	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**857,848**	921,204
Investment properties	**41**	43
Investments in subsidiaries	**144,532**	129,532
Investment in a joint venture	**57,561**	62,692
Right-of-use assets	**1,059**	1,619
Intangible assets	**2,848**	3,050
Deferred tax assets	**12,920**	9,954
Total non-current assets	**1,076,809**	1,128,094
CURRENT ASSETS		
Inventories	**8,021**	8,186
Trade receivables	**31,114**	30,408
Prepayments and other receivables	**460,711**	355,215
Other current assets	**768**	12,868
Cash and cash equivalents	**625,906**	305,827
Total current assets	**1,126,520**	712,504
CURRENT LIABILITIES		
Trade payables	**121,542**	73,782
Other payables and accruals	**65,971**	108,727
Interest-bearing bank and other borrowings	**10,715**	–
Lease liabilities	**559**	634
Early retirement and supplemental benefit obligations	**617**	1,183
Deferred income	**2,451**	1,689
Tax payable	**24,711**	26,878
Contract liabilities	**670,230**	606,145
Total current liabilities	**896,796**	819,038
NET CURRENT ASSETS/(LIABILITIES)	**229,724**	(106,534)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,306,533**	1,021,560
NON-CURRENT LIABILITIES		
Lease liabilities	**523**	968
Contract liabilities	**468,437**	500,943
Deferred income	**29,159**	20,700
Early retirement and supplemental benefit obligations	**9,191**	10,571
Total non-current liabilities	**507,310**	533,182
NET ASSETS	**799,223**	488,378
EQUITY		
Share capital	**466,700**	350,000
Reserves (Note)	**332,523**	138,378
TOTAL EQUITY	**799,223**	488,378

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000 Note 30(a)	Other comprehensive income RMB'000	Statutory reserve RMB'000 Note 30(b)	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	–	–	–	–	–
Profit for the year	–	–	–	88,739	88,739
Other comprehensive income:					
Remeasurement of employee benefit obligations	–	(361)	–	–	(361)
Total comprehensive income for the year	–	(361)	–	88,739	88,378
Capital contributions upon the Reorganization					
Capitalisation of new shares to the Shareholder from transfer of assets and liabilities in the Reorganization	322,000	–	–	–	322,000
Capital injection from a shareholder	24,237	–	–	–	24,237
Shareholding reform	(296,237)	–	–	–	(296,237)
Transfer to statutory reserve	–	–	8,874	(8,874)	–
At 31 December 2018 and 1 January 2019	50,000	(361)	8,874	79,865	138,378
Profit for the year	–	–	–	106,682	106,682
Other comprehensive income:					
Remeasurement of employee benefit obligations	–	2,264	–	–	2,264
Total comprehensive income for the year	–	2,264	–	106,682	108,946
Issue of shares	85,199	–	–	–	85,199
Transfer to statutory reserve	–	–	10,668	(10,668)	–
At 31 December 2019	**135,199**	**1,903**	**19,542**	**175,879**	**332,523**

39. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2020.