Giraffe
智富

25 August 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF ASSETS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of each of the Assets Transfer Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular issued by the Company dated 25 August 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 16 June 2025, the following agreements have been entered into by the Group for the purpose of acquiring certain heat production assets from the Controlling Shareholder Group: (a) the Original Assets Transfer Agreement I entered into between the Company and Changre Group in relation to the proposed acquisition at the consideration of RMB166,487,839.71; (b) the Original Assets Transfer Agreement II entered into between Yatai Heating and Changre Group in relation to the proposed acquisition at the consideration of RMB41,710,863.00; and (c) the Assets Transfer Agreement III entered into between the Company and Jilin Heating in relation to the Proposed Acquisition III at a consideration of RMB475,980.76. On 31 July 2025, the Company and Changre Group entered into the First Supplemental Assets Transfer Agreement I to amend the scope of the target assets and the consideration. The total appraised value of the carved-out assets amounted to RMB1,803,309.98 and as a result the total consideration payable by the Company to Changre Group for the proposed acquisition I is also amended from RMB166,487,839.71 to RMB164,684,529.73. On 15 August 2025, the Company and Changre Group entered into a Second Supplemental Assets Transfer Agreement I to further amend the scope of the target assets and the consideration. Due to the carve-out of the buildings and structures, the total consideration payable by the Company to Changre Group for the Proposed Acquisition I has been amended to

RMB113,930,021.65. On 15 August 2025, Yatai Heating and Changre Group entered into the Supplemental Assets Transfer Agreement II to amend the scope of the target assets and the consideration. Due to the carve-out of the buildings and structures, the total consideration payable by Yatai Heating to Changre Group for the Proposed Acquisition II has been amended to RMB16,457,865.00.

As disclosed in the Letter from the Board, pursuant to Chapters 14 and 14A of the Listing Rules, the transactions contemplated under the 2024 Assets Transfer Agreement and the Assets Transfer Agreements shall be aggregated because all the agreements are entered into by the Group and the Controlling Shareholder Group within a 12-month period and all the transactions involve the acquisition of assets which were used by the Controlling Shareholder Group for heat production purposes. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisitions and the 2024 Acquisition on an aggregated basis exceed(s) 25% but all of them are less than 100%, the Proposed Acquisitions when aggregated with the 2024 Acquisition constitute a major transaction for the Company under Chapter 14 of the Listing Rules and are therefore subject to the reporting, announcement and shareholders' approval requirements thereunder.

Given that (i) Changre Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company as at the date of the Assets Transfer Agreements, Changre Group is a connected person of the Company; and (ii) Jilin Heating, being a wholly-owned subsidiary of Changre Group, is a connected person of the Company, each of the Proposed Acquisitions constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisitions and the 2024 Acquisition, on an aggregated basis, exceed(s) 5%, the Proposed Acquisitions when aggregated with the 2024 Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Du Jie, Mr. Chan Sing Fai, and Ms. Zhang Yan, has been formed to advise the Independent Shareholders in relation to each of the Assets Transfer Agreements and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of (i) the 2024–2026 Heat Procurement Framework Agreement (Changre Group), the 2024–2026 heat procurement framework agreement (Datang JV), the 2024–2026 construction framework agreement, and the 2024–2026 pipes supply framework agreement as detailed in the circular of the Company dated 7 November 2023; and (ii) 2024 Assets Transfer Agreement and the loan agreement as detailed in the circular of the Company dated 9 December 2024. Notwithstanding the above engagement, as at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders considering that (i) our independent roles in the aforesaid engagements (the "**Previous Engagements**"); (ii) the aggregate professional fees paid/to be paid by the Company to us represent an insignificant portion of our revenue during the relevant period; and (iii) we have maintained our independence from the Company since the Previous Engagements, and our independence from the Company has not been compromised because of the Previous Engagements.

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

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the announcements of the Company dated 16 June 2025, 31 July 2025, and 15 August 2025 in relation to the Proposed Acquisitions; (ii) the terms of each of the Assets Transfer Agreements; (iii) the annual reports of the Company for the years ended 31 December 2024 ("**FY2024**") (the "**2024 Annual Report**") and 2023 ("**FY2023**"); (iv) the information and facts supplied by the Group; (v) the opinions expressed by and the representations of the Directors and management of the Group (the "**Management**"); and (vi) certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM.

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

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of each of the Assets Transfer Agreements and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

1.1 *Business of the Group*

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

According to the 2024 Annual Report, the Group has continued to increase investment in the informatisation and intelligentisation of heat supply. Since its establishment, it has continued to build a smart heat supply network system in a planned and phased manner. The current smart heat supply network system has achieved real-time monitoring, remote control, big data comprehensive analysis and other functions, and has been identified as the leading system in the heating industry by China District Heating Association (中國城鎮供熱協會). As at 31 December 2024, the heat supply area of the Group was approximately 69.8 million sq.m., representing an increase of approximately 3.9% compared to approximately 67.1 million sq.m. as at 31 December 2023. Furthermore, the Group had 572,058 heat supply customers in 2024, representing an increase of approximately 3.7% from 551,558 in 2023.

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

1.2 *Financial performance of the Group*

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

	For the year ended 31 December	
	2023	**2024**
	RMB'000	*RMB'000*
Revenue		
— Heat supply business	1,570,725	1,615,315
— Construction, maintenance and design services and others	123,692	190,385
	1,694,417	**1,805,700**
Gross profit	**265,891**	**257,155**
Gross profit margin	*15.7%*	*14.2%*
Net profit	**120,956**	**99,900**

In FY2023 and FY2024, the Group generated revenue from two operating segments, being (i) heat supply services and (ii) construction, maintenance and design services. Revenue generated from heat supply segment includes fees for provision and distribution of heat, pipeline connection fees charged for the connection to the Group's primary pipeline network, and heat transmission fees charged to other heat service providers. Revenue generated from construction, maintenance and design services includes engineering construction, engineering maintenance, project design and others.

Comparison of financial performance between the years ended 31 December 2023 and 2024

Based on the 2024 Annual Report, the Group's revenue increased by approximately 6.6% from approximately RMB1,694.4 million in FY2023 to approximately RMB1,805.7 million in 2024 mainly attributable to (i) the increase in revenue generated from the heat supply business by RMB44.6 million as a result of the increase in heat service area from approximately 67.1 million sq.m. as at 31 December 2023 to approximately 69.8 million sq.m. as at 31 December 2024, representing an increase of approximately 3.9%; and (ii) the increase in revenue generated from the engineering construction business by approximately RMB66.7 million due to increase in number of projects undertaken.

The Group's gross profit decreased by approximately 3.3% from approximately RMB265.9 million in FY2023 to approximately RMB257.2 million in FY2024, and the gross profit margin decreased from approximately 15.7% in FY2023 to approximately 14.2% in FY2024, mainly attributable to (i) the increase in maintenance and repair costs due to more external maintenance projects during FY2024, (ii) the increase in the consumption of heating materials mainly due to the increase in materials consumed during repair and maintenance, and (iii) the increase in costs of coal consumed mainly due to higher coal consumption as a result of the implementation of coal-fired boilers by the Yatai Heating Regal Division in FY2024.

The Group's net profit decreased from approximately RMB121.0 million in FY2023 to approximately RMB99.9 million in FY2024 mainly due to (i) the decrease in the gross profit as mentioned above, (ii) the increase in the administrative expenses as the result of the recognition of listing fee in relation to the application for the listing of A shares on the main board of the Shenzhen Stock Exchange, and (iii) the increase in credit impairment loss on receivables which was in line with the increase in gross balance of receivables during FY2024.

1.3 *Financial position of the Group*

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

	As at 31 December 2023 *RMB'000*	As at 31 December 2024 *RMB'000*
Assets		
— Cash and cash equivalents	1,111,042	1,449,174
— Fixed assets	897,056	850,266
— Prepayments	560,281	696,053
Liabilities		
— Contract liabilities	1,381,514	1,436,470
— Short-term borrowing	0	616,185
Total equity	989,846	1,043,160
Gearing ratio *(Note 1)*	**N/A**	**N/A**

Notes:

(1) Gearing ratio is the percentage of total interest-bearing liabilities (including interest-bearing bank and other borrowings and lease liabilities), net of cash and cash equivalents, to total equity at the end of each financial period.

(2) For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above.

According to the 2024 Annual Report, the Group's cash and cash equivalents increased by 30.4% from approximately RMB1,111.0 million as at 31 December 2023 to approximately RMB1,449.2 million as at 31 December 2024, which was primarily due to cash received from short-term bank borrowings.

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

The Group's prepayments mainly represented heat procurement costs paid to heat source providers in advance before the commencement of heat supply period. As at 31 December 2024, the Group's prepayments increased from approximately RMB560.3 million as at 31 December 2023 to RMB696.1 million in order to secure the supply of heat in response to the increase in the heat supply area.

The Group's liabilities mainly derived from contract liabilities which represented the Group's obligation to provide goods to the customer for the consideration received or receivable. As at 31 December 2023 and 2024, the Group's contract liabilities remained relatively stable at approximately RMB1.4 billion and RMB1.4 billion respectively.

The total equity increased from approximately RMB989.8 million as at 31 December 2023 to approximately RMB1,043.2 million as at 31 December 2024 mainly attributable to the profit for FY2024.

As at 31 December 2023 and 2024, the Group's short-term borrowings amounted to nil and RMB616.2 million. Since the Group's cash and cash equivalents exceeded the Group's total interest-bearing liabilities, the gearing ratio was not applicable as at 31 December 2023 and 2024.

1.4 *Business outlook*

According to the National Bureau of Statistics of China (the "**NBS**") and the Statistic Bureau of Jilin* (吉林省統計局), the urbanization rates of the PRC and Jilin Province increased from approximately 54.8% and 54.8% in 2014 to approximately 67.0% and 65.8% in 2024, respectively. The number of urban residents of Jilin Province reached approximately 15.2 million in 2024. The rising urbanization rates in the PRC and Jilin Province lead to increasing demand for heating service and related urban municipal infrastructure, which is the fundamental driver of the development of heat supply and related construction, maintenance and design industry.

Pursuant to the National 14th Five-Year Plan for Urban Infrastructure Construction* (《「十四五」全國城市基礎設施建設規劃》) published in 2022 by National Development and Reform Commission* (國家發展和改革委員會) and Ministry of Housing and Urban-Rural Development* (住房和城鄉建設部), the PRC government continued to improve the central heating capacity, the municipal infrastructure, and service area, and to reduce heat loss rate of heating pipe network. Further, the government proposed to strengthen the construction and transformation of clean heat sources and pipe networks, and develop new energy, renewable energy, and other low-carbon energy sources. These favorable policies are expected to stimulate the demand for the high-quality heating infrastructure and drive the growth of the heat supply industry. According to the China Statistical Yearbook compiled by NBS, the length of heating pipelines construction and area of centralised heating of Jilin Province of the PRC has increased from approximately 17,309 k.m. to 38,942 k.m. and from approximately 450 million sq.m. to 691 million sq.m., respectively from 2014 to 2023.

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

In March 2022, the Ministry of Housing and Urban-Rural Development* (住房和城鄉建設部) published the notice of the "14th Five-Year Plan for Building Energy Conservation and Green Building Development" (《「十四五」建築節能與綠色建築發展規劃》), aiming to complete the energy efficiency retrofit of more than 100 million sq.m. in existing residential buildings nationwide by 2025. The release of a series of policies implies the future development of the heating industry will focus on promoting the provision of heat from clean energy sources, improving the efficiency of heating energy use, and accelerating the construction and renovation of heating pipelines. As disclosed in the 2024 Annual Report, the Group will uphold its original intention while deepening reform to adapt to industry trend in the future to advance its development in clean energy heating business. By actively improving its layout in heat supply industry, the Group is committed to making further contribution to the industrial development.

2. Information on Yatai Heating, Changre Group and Jilin Heating

As disclosed in the Letter from the Board, Yatai Heating is a limited liability company established in the PRC on 30 October 1998 and is a wholly-owned subsidiary of the Company. Yatai Heating is principally engaged in the heat services business which adopts a heating supply method which combines the purchase of heat from cogeneration plants and coal-fired boilers.

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

Jilin Heating is a limited liability company established in the PRC on 26 December 2016 and is a wholly-owned subsidiary of Changre Group. Jilin Heating is principally engaged in heat production and supply.

3. Principal terms of the Assets Transfer Agreements

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

3.1 *The Assets Transfer Agreement I*

Date of the Original Assets Transfer Agreement I	16 June 2025
Date of the First Supplemental Assets Transfer Agreement I	31 July 2025
Date of the Second Supplemental Assets Transfer Agreement I	15 August 2025
Parties	(a) The Company, as the purchaser (b) Changre Group, as the vendor
Assets to be acquired	Pursuant to the Assets Transfer Agreement I, the Company has conditionally agreed to purchase, and Changre Group has conditionally agreed to sell, the Target Assets I, subject to the terms and conditions therein. The Target Assets I comprise 2 land parcels (with 3 sets of land ownership certificates) (the "**Target Land**"), 2 pipes and trenches, 385 machineries and equipment and electronic equipment and 1 vehicle which are currently located in Changre Group's Dongsheng Boiler Room, Changre Group's Jingyi Boiler Room and Jilin University Nanling Campus Boiler Room. According to the information provided by Changre Group, the net book value of the Target Assets I amounted to RMB45,345,755.59 as at the Valuation Date.

Among the Target Assets I, (a) 2 pipes and trenches, 300 machineries and equipment and 31 electronic equipment which are currently located in Changre Group's Dongsheng Boiler Room and Jingyi Boiler Room are situated in buildings owned by Changre Group on the Target Land (the "**Changre Group Buildings I**"). The Changre Group Buildings I have a total GFA of approximately 16,935.7 sq.m. and are situated on the Target Land. The Target Land which form part of the Target Assets I comprise 2 land parcels (with 3 sets of land ownership certificates), namely (i) a land parcel located at Huairen Road, Er Dao District, Changchun City, Jilin Province, the PRC; and (ii) a land parcel located at the North of Nanhuan Road & Weixing Road, Jingyue Development District, Changchun City, Jilin Province, the PRC; and (b) 23 machineries and equipment, 31 electronic equipment and 1 vehicle are currently located in the Jilin University Nanling Campus Boiler Room which is situated on land and buildings owned by Jilin University.

Pursuant to the "Centralized Heating and Grid Connection Agreement" (集中供熱併網協議) (the "**Centralized Heating and Grid Connection Agreement**") entered into between Jilin University and the Company dated 27 June 2024, during the term of the Centralized Heating and Grid Connection Agreement, the Company has been granted a right to use the land and the buildings of the Jilin University Nanling Campus Boiler Room at nil consideration. The Centralized Heating and Grid Connection Agreement is an agreement for an indefinite duration and shall be valid for a long term from the date of execution unless as otherwise terminated due to force majeure factors or legal or policy requirements.

Pursuant to the terms of the Assets Transfer Agreement I, Changre Group agrees and confirms that upon completion of the Proposed Acquisition I, the Company shall be granted a right of use of the Changre Group Buildings I and the related structures at nil consideration for an indefinite period. Changre Group shall indemnify the Company in the event the Company is unable to use the Changre Group Buildings I and the related structures or incurs any loss thereto due to reasons attributable to Changre Group. The parties shall enter into an agreement to finalize the details of the indemnity within 30 days upon the Company's notification of such loss to Changre Group.

Changre Group undertakes that the ownership rights to the Target Assets I are clear and belong to Changre Group and the Target Assets I are free from any pledges, legal disputes or ownership defects and are the legitimate assets of Changre Group.

In the event where any of the Target Assets I has ownership defects or its right of use is being restricted due to reasons attributable to Changre Group, Changre Group has undertaken to resolve such issue unconditionally. Changre Group shall indemnify the Company for any losses suffered from ownership defects. It is further agreed that the parties shall enter into an agreement to finalize the details of the indemnity within 30 days upon the Company's notification of such loss to Changre Group.

Consideration	The Consideration I for the Proposed Acquisition I is RMB113,930,021.65, which shall be satisfied by the Company in cash on the Completion Date I.

The Consideration I has been arrived at after arm's length negotiations between the Company and Changre Group with reference to the total appraised value of the Target Assets I of RMB113,930,021.65 as at the Valuation Date as stated in the assets valuation report prepared by the Valuer, using the cost method. The Group intends to finance the Consideration I by its existing internal resources.

Please refer to Appendix II to the circular for further information.

Having considered the factors taken into account by the parties in arriving at the Consideration I, the appraised value of the Target Assets I, including the appraisal added value of RMB68,584,266.06 for the Target Assets I and the valuation methods and assumptions adopted by the Valuer, details of which are set out in Appendix II to the circular, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in the circular) are of the view that the Consideration I is fair and reasonable and the Proposed Acquisition I is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of the Proposed Acquisition I is conditional upon the following conditions having been fulfilled:

(a) Changre Group having completed the applicable internal decision making procedure in respect of the Assets Transfer Agreement I and the transactions contemplated thereunder in accordance with the requirements of its articles of association;

(b) the Assets Transfer Agreement I and the transactions contemplated thereunder having been approved by the Board and the Shareholders at general meeting of the Company in accordance with the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and

(c) (where applicable) as regards the entering into and performance of the Assets Transfer Agreement I, each of Changre Group and the Company having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.

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

Completion	Upon the fulfilment of all of the conditions precedent set out in the Assets Transfer Agreement I, completion of the Proposed Acquisition I shall take place on the Completion Date I. Subject to the fulfilment of all of the conditions precedent set out in the Assets Transfer Agreement I, the Company intends to complete the Proposed Acquisition I before the commencement of the 2025–2026 heat supply period in mid-October 2025. With effect from the Completion Date I, all interests, rights and obligations attached to the Target Assets I shall be transferred from Changre Group to the Company.

3.2 ***The Assets Transfer Agreement II***

Date of the Original Assets Transfer Agreement II	16 June 2025
Date of the Supplemental Assets Transfer Agreement II	15 August 2025
Parties	(a) Yatai Heating, as the purchaser (b) Changre Group, as the vendor
Assets to be acquired	Pursuant to the Assets Transfer Agreement II, Yatai Heating has conditionally agreed to purchase, and Changre Group has conditionally agreed to sell, the Target Assets II, subject to the terms and conditions therein. The Target Assets II comprise 326 machineries and equipment of Changre Group's Lvyuan Business Division and Yongchun Business Division which are currently used by Changre Group for heat production purposes. According to the information provided by Changre Group, the book value of the Target Assets II amounted to RMB12,921,402.21 as at the Valuation Date.

The Target Assets II situate in buildings owned by Changre Group (the "**Changre Group Buildings II**"). The Changre Group Buildings II have a total GFA of 19,353.4 sq.m. and are situated on two land parcels, namely (a) a land parcel located at Lv Yuan District, Changchun City, Jilin Province, the PRC; and (b) a land parcel located at Xixi and Siwu Community, Nanguan District, Changchun City, Jilin Province, the PRC. Pursuant to the Assets Transfer Agreement II, upon completion of the Proposed Acquisition II, Yatai Heating will be granted a right of use of the Changre Group Buildings II and the related structures at nil consideration for an indefinite period. Changre Group shall indemnify Yatai Heating in the event Yatai Heating is unable to use the Changre Group Buildings II and the related structures or incurs any loss thereto due to reasons attributable to Changre Group. The parties shall enter into an agreement to finalize the details of the indemnity within 30 days upon Yatai Heating's notification of such loss to Changre Group.

Changre Group undertakes that the ownership rights to the Target Assets II are clear and belong to Changre Group and the Target Assets II are free from any pledges, legal disputes or ownership defects and are the legitimate assets of Changre Group.

In the event where any of the Target Assets II has ownership defects or its right of use is being restricted due to reasons attributable to Changre Group, Changre Group has undertaken to resolve such issue unconditionally. Changre Group shall indemnify Yatai Heating for any losses suffered from ownership defects. It is further agreed that the parties shall enter into an agreement to finalize the details of the indemnity within 30 days upon Yatai Heating's notification of such loss to Changre Group.

Consideration

The Consideration II for the Proposed Acquisition II is RMB16,457,865.00, which shall be satisfied by Yatai Heating in cash on the Completion Date II.

The Consideration II has been arrived at after arm's length negotiations between Yatai Heating and Changre Group with reference to the total appraised value of the Target Assets II of RMB16,457,865.00 as at the Valuation Date as stated in the assets valuation report prepared by the Valuer, using the cost method. The Group intends to finance the Consideration II by its existing internal resources.

Please refer to Appendix III to the circular for further information.

Having considered the factors taken into account by the parties in arriving at the Consideration II, the appraised value of the Target Assets II, including the appraisal added value of RMB3,536,462.79 and the valuation methods and assumptions adopted by the Valuer, details of which are set out in Appendix III to the circular, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in the circular) are of the view that the Consideration II is fair and reasonable and the Proposed Acquisition II is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of the Proposed Acquisition II is conditional upon the following conditions having been fulfilled:

(a) Changre Group having completed the applicable internal decision making procedure in respect of the Assets Transfer Agreement II and the transactions contemplated thereunder in accordance with the requirements of its articles of association;

(b) the Assets Transfer Agreement II and the transactions contemplated thereunder having been approved by the board of directors of Yatai Heating, the Board and the Shareholders at general meeting of the Company in accordance with the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and

	(c) (where applicable) as regards the entering into and performance of the Assets Transfer Agreement II, each of Changre Group and Yatai Heating having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.
	None of the conditions above may be waived (whether in whole or in part) by either party.
Completion	Upon the fulfilment of all of the conditions precedent set out in the Assets Transfer Agreement II, completion of the Proposed Acquisition II shall take place on the Completion Date II. Subject to the fulfilment of all of the conditions precedent set out in the Assets Transfer Agreement II, Yatai Heating intends to complete the Proposed Acquisition II before the commencement of the 2025–2026 heat supply period in mid-October 2025. With effect from the Completion Date II, all interests, rights and obligations attached to the Target Assets II shall be transferred from Changre Group to Yatai Heating.

3.3 ***The Assets Transfer Agreement III***

Date	16 June 2025
Parties	(a) The Company, as the purchaser (b) Jilin Heating, as the vendor
Assets to be acquired	Pursuant to the Assets Transfer Agreement III, the Company has conditionally agreed to purchase, and Jilin Heating has conditionally agreed to sell, the Target Assets III, subject to the terms and conditions therein. The Target Assets III comprise 51 machineries and equipment currently used by Jilin Heating for heat production purposes. According to the information provided by Jilin Heating, the book value of the Target Assets III amounted to RMB212,031.89 as at the Valuation Date.

The Target Assets III are situated on Sifang Community Heating Station (四方社區供熱站). Pursuant to Changchun Municipal People's Government State-owned Assets Supervision and Administration Commission Changguozi [2020] No. 183 "Reply on the Free Transfer of Heating Assets of Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd." (長春市人民政府國有資產監督管理委員會長國資[2020]183號《長春市國資委關於長春市天宇瑞邦節能科技有限公司供熱資產無償劃轉的批覆》) and the agreement entered into between Changre Group and Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd. (Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd.) dated 22 September 2020, the operating rights and assets of Sifang Community Heating Station shall be transferred to Changre Group and all machinery and equipment thereon shall be owned by Changre Group. As such, Changre Group has the right to use the land of the Sifang Community Heating Station (the "**Sifang Land**").

Pursuant to the Assets Transfer Agreement III, upon completion of the Proposed Acquisition III, the Company will be granted a right of use of the premises which the Target Assets III currently situate on at nil consideration for an indefinite period. Jilin Heating shall indemnify the Company in the event the Company is unable to use the Sifang Land or incurs any loss thereto due to reasons attributable to Jilin Heating. The parties shall enter into an agreement to finalize the details of the indemnity within 30 days upon the Company's notification of such loss to Jilin Heating.

Jilin Heating undertakes that the ownership rights to the Target Assets III are clear and belong to Jilin Heating and the Target Assets III are free from any pledges, legal disputes or ownership defects and are the legitimate assets of Jilin Heating.

In the event where any of the Target Assets III has ownership defects or its right of use is being restricted due to reasons attributable to Jilin Heating, Jilin Heating has undertaken to resolve such issue unconditionally. Jilin Heating shall indemnify the Company for any losses suffered from ownership defects. Jilin Heating further agrees that it shall enter into an agreement with the Company to finalize the details of the indemnity within 30 days upon the Company's notification of such loss to Jilin Heating.

Consideration	The Consideration III for the Proposed Acquisition III is RMB475,980.76, which shall be satisfied by the Company in cash on the Completion Date III. The Consideration III has been arrived at after arm's length negotiations between the Company and Jilin Heating with reference to the total appraised value of the Target Assets III of RMB475,980.76 as at the Valuation Date as stated in the assets valuation report prepared by the Valuer, using the cost method. The Group intends to finance the Consideration III by its existing internal resources. Please refer to Appendix IV to the circular for further information. Having considered the factors taken into account by the parties in arriving at the Consideration III, the appraised value of the Target Assets III, including the appraisal added value of RMB263,948.87 and the valuation methods and assumptions adopted by the Valuer, details of which are set out in Appendix IV to the circular, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in the circular) are of the view that the Consideration III is fair and reasonable and the Proposed Acquisition III is in the interests of the Company and the Shareholders as a whole.
Conditions precedent	Completion of the Proposed Acquisition III is conditional upon the following conditions having been fulfilled: (a) Jilin Heating having completed the applicable internal decision making procedure in respect of the Assets Transfer Agreement III and the transactions contemplated thereunder in accordance with the requirements of its articles of association;

(b) the Assets Transfer Agreement III and the transactions contemplated thereunder having been approved by the Board and the Shareholders at general meeting of the Company in accordance with the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and

(c) (where applicable) as regards the entering into and performance of the Assets Transfer Agreement III, each of Jilin Heating and the Company having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.

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

Completion	Upon the fulfilment of all of the conditions precedent set out in the Assets Transfer Agreement III, completion of the Proposed Acquisition III shall take place on the Completion Date III. Subject to the fulfilment of all of the conditions precedent set out in the Assets Transfer Agreement III, the Company intends to complete the Proposed Acquisition III before the commencement of the 2025–2026 heat supply period in mid-October 2025. With effect from the Completion Date III, all interests, rights and obligations attached to the Target Assets III shall be transferred from Jilin Heating to the Company.

As discussed with the Management, they have (i) obtained key documents such as state-owned land use rights certificates, certificates of special equipment use registration for the boilers, and vehicle license; (ii) engaged a Valuer to appraise the Target Assets based on independent, objective, and fair principles; and (iii) consulted a PRC legal adviser to conduct a legal analysis regarding the transfer of the Target Assets through a non-public method. According to the valuation descriptions given by the Valuer, various approaches were employed, including the review of historical documents, site inspections, information gathering from third parties, surveys, and verification of the Target Assets etc. As confirmed in the valuation descriptions, the Target Assets are free from pledges or guarantees.

We have obtained the land use rights certificates, certificates of special equipment use registration for boilers, and the vehicle license. We also obtained the Centralized Heating and Grid Connection Agreement, which grants the Company the right to use the boiler rooms at Jilin University Nanling Campus at nil consideration. Under this agreement, Jilin University has also transferred the heating management rights of the Jilin University Nanling Campus to the Company. The Centralized Heating and Grid Connection Agreement shall be valid for an indefinite duration from the date of execution unless as otherwise terminated due to force majeure factors or legal or policy requirements. Additionally, we obtained Changchun Municipal People's Government State-owned Assets Supervision and Administration Commission Changguozi [2020] No. 183 "Reply on the Free Transfer of Heating Assets of Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd." (長春市人民政府國有資產監督管理委員會文件長國資[2020]183號《長春市國資委關於長春市天宇瑞邦節能科技有限公司供熱資產無償劃轉的批覆》) and the agreement entered into between Changre Group and Changchun Tianyu Ruibang Energy Saving Technology Co., Ltd* (長春市天宇瑞邦節能科技有限公司) dated 22 September 2020. The operating rights and related assets of Sifang Community Heating Station shall be transferred to Changre Group, which shall assume operational responsibilities and implement the centralized heating reform, including the management of all heating networks. Accordingly, we concur with the Directors' view that the Company or Changre Group has the right to use the aforementioned premises.

Additionally, we obtained a legal opinion prepared by the PRC legal adviser, who conducted an analysis on the feasibility of transferring the Target Assets through a non-public method. It is noted that the transfer is feasible provided that the necessary approvals are obtained from the relevant regulatory authorities overseeing state-owned assets. In practice, the PRC legal adviser and the Management inquired with the Property Rights Division of the State-owned Assets Supervision and Administration Commission of the People's Government of Changchun City* (長春市人民政府國有資產監督管理委員會產權處) (the "**Commission**") regarding the approval process, which confirmed that since the Proposed Acquisitions between the Group and the Controlling Shareholder Group are regarded as transfer of assets within the Controlling Shareholder Group, such intra-group transfers are subject to the Controlling Shareholder Group's internal procedures and no approvals are required from the Commission. We have obtained the relevant enquiry records and understood from the PRC legal adviser that (i) the discrepancy between the legal opinion and actual practice stems from differing interpretations of policy guidelines; and (ii) the legal opinion is issued from a more conservative, stringent perspective.

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

Furthermore, we have reviewed the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises* (企業國有資產交易監督管理辦法) published by the State-Owned Asset Supervision & Administration Commission of the State Council and Ministry of Finance in June 2016, and noted that for asset transfers involving internal transactions within state-funded enterprises or specific industries, where non-public transfers are necessary between state-owned enterprises, state-controlled enterprises, or enterprises under actual state control, the transferor should report the matter to the relevant state-funded enterprise for review and approval.

4. Analysis on consideration

To assess the fairness and reasonableness of the Consideration I, Consideration II, and Consideration III, we reviewed the valuation reports prepared by the Valuer (the "**Valuation Reports**"), details of which are set out in Appendices II to IV to the Circular.

We understood from the Management that the Target Assets were appraised by Jilin Province Gongjian Weiye Real Estate Appraisal Co., Ltd.* (吉林省共建偉業房地產估價有限責任公司), an independent firm of qualified valuers in the PRC. According to the Valuation Reports and supporting working papers provided by the Valuer, as of 17 March 2025, (i) the total appraised value of the Target Assets I was approximately RMB113.9 million, among which approximately RMB65.1 million was attributable to the land use rights, approximately RMB0.1 million was attributable to the pipe network, approximately RMB48.7 million was attributable to the machineries and equipment, and approximately RMB35,000 was attributable to a vehicle; (ii) the total appraised value of the Target Assets II was approximately RMB16.5 million, attributable to the machineries and equipment; and (iii) the total appraised value of the Target Assets III was approximately RMB0.5 million, primarily attributable to certain machineries and equipment associated with boilers.

According to the Letter from the Board, as at the Valuation Date, (i) the book value of the Target Assets I amounted to RMB45,345,755.59, (ii) the book value of the Target Assets II amounted to RMB12,921,402.21, and (iii) the book value of the Target Assets III amounted to RMB212,031.89. As advised by the Valuer, the difference between the appraised value and the book value was mainly attributable to:

(a) differences in the depreciation rate adopted by the Controlling Shareholder Group in calculating the net book value and the integrated newness rate adopted by the Valuer in the valuation process. For certain boilers and ancillary equipment, the period adopted in the valuation which takes into account the physical state of the equipment's effective usability is longer than the depreciation period adopted by the Controlling Shareholder Group determined in accordance with applicable accounting standards. For instance, some machinery and equipment can continue to operate normally even after surpassing their useful life; and

(b) the increase in land use rights primarily results from the appreciation of land value as of the Valuation Date, whereas the book value reflects amortization related to intangible assets recorded by the Controlling Shareholder Group.

We conducted a desktop search and noted that, according to notices published by the Changchun Planning and Natural Resources Bureau* (長春市規劃和自然資源局), the benchmark prices for national industrial land in the Changchun urban area, where the target land parcels are located, have increased from RMB440 per square metre in 2010 to approximately RMB1,500 per square metre in 2024, representing more than a twofold increase. Furthermore, according to the NBS, the average salaries in the manufacturing and construction industries have risen from approximately RMB30,000 per annum in 2010 to approximately RMB100,000 per annum in 2024, more than doubling over the period.

Having considered (i) the upward trend of benchmark prices for national industrial land in the Changchun urban area; (ii) the integrated newness rates adopted by the Valuer has taken in account the economic life and age of the Target Assets as discussed in subsection headed "(4) Valuation of machineries and equipment"; and (iii) the land use right was referenced to the benchmark land price in Changchun which reflected current land price after taking into account the adjustment coefficient reflecting the conditions of the land parcels as discussed in subsection "(3) Valuation of land use right", it is justifiable that the appraised fair value of the Target Assets exceeds their book value.

(1) ***Valuer's qualification and independence***

For our due diligence purpose, we have obtained and reviewed (i) the terms of engagement between the Valuer and the Company; (ii) the Valuer's work scope for preparing the Valuation Reports; (iii) the Valuer's qualifications and experience in relation to the preparation of the Valuation Reports; and (iv) track records on other valuations conducted by the Valuer. We noted from the engagement letters entered into between the Company and the Valuer that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Reports. Furthermore, based on the relevant information provided by the Valuer and our interview with them, we are satisfied with their qualifications for preparing the Valuation Reports. The Valuer is a member of China Appraisal Society. The personnel in charge and signing the Valuation Reports is a practicing member of China Appraisal Society, qualified in asset valuation, real estate valuation, and land valuation. The Valuer also confirmed that they are independent of the Group and Controlling Shareholder Group.

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

We noted from the Valuation Reports that the Target Assets mainly consist of (i) land use rights, and (ii) boilers and ancillary equipment. We further reviewed and inquired about the methodology, basis, and assumptions used in the Valuation Reports.

As discussed with the Valuer, the income approach is appropriate when appraisal assets can be considered a minimal asset unit being able to generate income separately. A minimal asset unit in heating business typically comprises heat supply license, buildings, equipment, and other ancillary fixed assets such as heat supply pipelines. As advised by the Management, (i) the Target Assets are unable to generate income independently without being operated by an enterprise with heat supply license; and (ii) the Target Assets do not include all the heat supply pipelines, some of which are already owned by the Group. Therefore, the Target Assets cannot be regarded as a minimal asset unit capable of generating income independently. Additionally, since each operating unit collectively oversees several boiler rooms and there is no separate team or business unit assigned to each boiler room, it is difficult to accurately quantify the associated costs and expenses related to labor, management, and operations attributable to the Target Assets. Estimating these costs involves a variety of assumptions and improper assumptions will impose significant impact on the fair value. Given the above factors, the income approach is not suitable for appraising the Target Assets as a whole.

(a) *Land use right*

We have discussed with the Valuer and understood that in conducting the valuation of the land use rights, they have considered different valuation methods, namely the market comparison method, the income capitalisation method, the residual method, the cost method, and the benchmark land price coefficient adjustment method.

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

The income capitalization method is a method in line with the principle of expected income, which calculates the price of the land to be valued by capitalizing the future and normal annual income (rent) of the land to be valued with certain capitalization rate.

The residual method is used in determining the value of the appraised subject by deducting the expected development costs and other relevant costs from the transaction price of the appraised subject after development is completed. The residual method is a common method for assessing the value of newly developed or redeveloped real estates.

The cost method refers to the approach that determines the appraised subject based on acquisition cost and development costs. It also takes into account the corresponding profits and interests that should be generated by equivalent amount of investment.

The benchmark land price coefficient adjustment method relies on the urban benchmark land price and the land parcel price adjustment coefficients table. By adopting the principle of substitution, comparing the specific conditions of the land parcel against the average conditions of the district in which the land parcel is located, and referring to the adjustment coefficients table, the corresponding adjustment coefficients are selected and applied to the benchmark land price to come up with the adjusted valuation price. The Benchmark Land Price Coefficient Correction Method is a derivative method of the market approach which compares and adjusts the assessed property against the average land price corresponding to the benchmark land price to obtain the value of the assessed property.

As discussed with the Valuer, the market comparison method is unsuitable in this case due to the lack of comparable transaction records for land use rights similar to the subject of appraisal in the market. According to the Valuer, the area surrounding the appraised subject has been fully developed in recent years, and currently there are no plots of land available for sale in primary market. Additionally, no recent transactions of similar plots have been observed in the secondary market, making it difficult to establish reliable comparable data. Moreover, as the rental market in the regions where the land parcels are located is relatively immature, no comparable rental transaction records can be identified and thus the income capitalization method is not suitable in this case. Furthermore, as the appraised subject is industrial land and has been developed by enterprise for its own use, future planning conditions are unknown, and thus the residual method is not suitable in this case. The cost method is not suitable in this case as the land parcels are located in a developed region and no recent large-scaled land expropriation projects in the vicinity of the appraised land are noted, relevant costs information cannot be accurately obtained. In contrast, the current benchmark land price in Changchun was updated and released in 2024, which is a fair indication of the current land price after taking into account the adjustment coefficient reflecting the conditions of the land parcels. In view of the above, we concur with the Valuer's view that the benchmark land price coefficient adjustment method is the most suitable valuation method in appraising the land use right in this case.

(b) *Other target assets (excluding the land use rights) ("**Other Target Assets**")*

We have discussed with the Valuer and understood that in appraising the value of Other Target Assets, they have considered three generally accepted appraisal approaches, namely, income approach, market approach and cost approach.

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

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

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

As discussed with the Valuer, Other Target Assets, which mainly include boilers and ancillary equipment, are unable to generate income individually. Furthermore, for Other Target Assets as a whole, it is difficult to quantify costs and expenses related to labor, management and operation, land, and boilers that are assigned to Other Target Assets in monetary terms, the estimation of which involves a variety of assumptions and improper assumptions will impose significant impact on the fair value. Therefore, the income approach is not appropriate for this appraisal. The market approach is unsuitable in this case due to the difficulty in collecting transaction records for assets similar to the subject of appraisal in the market. Boilers and ancillary equipment are typically assembled and installed with various materials, pipes, pumps, and other components rather than being purchased as a complete set in the market. The cost approach, which takes into account the physical deterioration and all relevant forms of obsolescence and optimisation, is an appropriate approach for appraising Other Target Assets. In light of the above, we concur with the Valuer's view that the income approach and the market approach are considered less suitable than the adopted cost approach.

(3) *Valuation of land use right*

There are three plots of land under the Target Assets I, located in Changchun and currently utilised by Changre Group for heat production purposes. The areas of these land plots range from 10,924 sq.m. to 29,967 sq.m., with appraised values between approximately RMB8.9 million and RMB38.1 million as of the Valuation Date.

As communicated with the Valuer, the benchmark price was referenced to the Changchun Industrial and Mining Area Benchmark Land Price Map* (長春市區工礦用地區片基準地價圖), the Changchun City Benchmark Land Price Results Application Instructions* (長春市區基準地價成果應用説明), and the Notice of the Changchun Municipal People's Government on Publicizing and Implementing the Results of Updating the Benchmark Land Value of Changchun Municipal District* (長春市人民政府關於公佈實施長春市區基準地價更新成果的通知) dated 21 August 2024. The benchmark price was then adjusted based on each land plot's remaining years of use rights and various factors such as transportation convenience, environmental quality, geography, neighborhood, land shape, and land planning, in accordance with the Changchun City Benchmark Land Price Results Application Instructions* (長春市區基準地價成果應用説明). We further noted from the valuation working paper provided by the Valuer that a grade would be given to each factor based on the condition of land parcel so as to determine the adjustment coefficient to be adopted in appraising the value of land use right.

We have obtained the state-owned land use rights certificates for the plots, which include details such as the land use rights holder's name, certificate number, address, and land area. The validation periods for land use rights expire in 2042 and 2055, respectively. These details are consistent with the information in the valuation. Additionally, we reviewed the referenced documents and conducted a desktop search of the locations of the land plots. We reviewed the benchmark prices listed in the Changchun City Benchmark Land Price Results Application Instructions* (長春市區基準地價成果應用説明) and observed that the benchmark prices range from RMB1,500 to RMB1,620 per sq.m. for the areas where the land parcels are located. The assessment of each adjustment factor is also specified. These benchmark prices and adjustment factors are consistent with those used by the Valuer.

(4) *Valuation of machineries and equipment*

Machineries and equipment primarily comprise boilers, blowers, dust collectors, denitrification equipment, desulfurization apparatus, pumps, and other electronic systems and equipment.

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

Appraised value = Replacement cost × Integrated newness rate

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

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

The appraised values of the top 5 machineries and equipment are as follows:

	Equipment item	Appraised value (RMB)	Newness rate determined by the lifetime method	Newness rate determined by the survey method
1.	Boiler	4,521,237	89%	95%
2.	Boiler	3,917,041	32%	45%
3.	Dust collector	3,150,930	86%	95%
4.	Boiler	2,507,111	11%	45%
5.	Boiler	2,397,251	57%	60%

(a) *Replacement cost*

According to the Valuation Reports, there are (i) a total of 385 machineries and equipment under Target Assets I with replacement cost ranged from approximately RMB298 to RMB12,978,256; (ii) a total of 326 machineries and equipment under Target Assets II with replacement cost ranged from approximately RMB264 to RMB5,277,955; and (iii) a total of 51 machineries and equipment under Target Assets III with replacement cost ranged from approximately RMB393 to RMB300,015. We obtained a comprehensive list of calculation workings for machineries and equipment and discussed with the Valuer the basis and assumptions underlying the key factors. We noted that the replacement cost of the machineries and equipment is based on the original book value, adjusted according to the Industrial Producers' Ex-factory Price Index* (工業生產者出廠價格指數) published by NBS. A discount is applied on the appraised value to further account for lower productivity or relatively high energy consumption resulting from prolonged use, as well as technological advancements for electronic equipment. Additionally, we discussed with the Valuer and understood that there are two commonly used methods for calculating replacement cost: renewal replacement cost and restoration replacement cost. Renewal replacement cost represents the cost of purchasing and constructing a new asset with the same functions as the appraisal object, utilizing new materials, modern construction or manufacturing standards, and upgraded designs, specifications and technologies at current price levels. In contrast, restoration replacement cost involves the cost of repurchasing and building a new asset identical to the appraisal object, using the same materials, construction or manufacturing standards, design, specifications and technology as the original asset, all at current price levels. Due to the difficulty in collecting transaction records for assets similar to the boiler ancillary equipment in the market, the Valuer opted for the restoration replacement cost method. We conducted an online search and noted that there are two categories of replacement cost as outlined in the Code of Practice on Asset Appraisal — Asset Appraisal Methods published by China Appraisal Society in December 2019, stating that the restoration replacement cost applied by reproducing the appraisal object in its original condition.

For machineries and equipment excluding electronic equipment, installation fees, transportation costs, and other upfront fees are also included in the replacement cost. These fees are necessary to ensure the equipment is brought to condition ready for use. We obtained a breakdown of upfront and other costs and noted that these fees were mainly referenced to the Regulations on the Administration of Engineering Survey and Design Charges* (《工程勘察設計收費管理規定》) published by the State Planning Commission and the Ministry of Construction, and the Regulations on the Administration of Construction Supervision, Related Services Charges* (《建設工程監理與相關服務收費管理規定》) published by the National Development and Reform Commission and the Ministry of Construction, and Provisions on Financial Management of Construction*《基本建設財務管理規定》. We also obtained data from several sources including Indicators of Equipment Installation and Commissioning Rates* (機器設備安裝調試費率指標參考), Indicator of Domestic Equipment Transportation And Miscellaneous Charges* (國產設備運雜費參考指標), and Estimated Domestic Equipment Base Fee Indicators* (國內設備基礎費概算指標) and noted that the information is generally in line with the valuation results. For electronic equipment that are primarily software-based, such as combustion optimization system and smoke monitoring system, the abovementioned upfront fees are not considered.

(b) *Integrated newness rate*

As discussed with the Valuer, the newness rate determined by the survey method involved scoring the machineries and equipment through site inspections primarily based on (i) the degree of corrosion and scale, (ii) usage and workload, (iii) operational status and technological advancement, (iv) the frequency of inspections and maintenance, and (v) supporting equipment. We also obtained and reviewed the scoring records for sampled assets and inspection photos of the Valuer's site visit. For electronic equipment that are primarily software-based, such as combustion optimization system and smoke monitoring system, which are difficult to be evaluated through survey methods, only the newness rate determined by the lifetime method is applied.

Furthermore, we inquired with the Valuer about the basis for the weighting rate of the integrated newness rate. According to the Valuer, the newness rate determined by the lifetime method is more theoretical and does not take account of physical condition of a specific asset. The limitation is addressed by incorporating the survey method, which reflects the actual condition of the Target Assets. As a result, a greater weighting is assigned to the newness rate determined by the survey method in the valuation process. Additionally, our online research indicated that a weighting of 40% for the newness rate determined by the lifetime method and 60% for the newness rate determined by the survey method is considered a practical valuation norm in the industry. This approach balances theoretical assessments with the tangible condition of the Target Assets being evaluated. The integrated newness rate of the machineries and equipment adopted by the Valuer ranged from 15% to 96%.

As discussed with the Valuer, the economic life of the machineries and equipment was referenced from the Handbook of Commonly Used Technical Indicators and Parameters for Asset (Price) Valuation* (資產(價格)評估常用技術指標和參數大全). We noted that the typical economic life of hot water boilers is 15 to 16 years, 8 to 10 years for sewage pumps, 12 to 14 years for other fixed equipment. We obtained and reviewed the data used by the Valuer for appraising the machineries and equipment, which generally aligns with the methodology in the handbook.

For machineries and equipment under Target Assets I, 149 pieces have been utilized for less than 10 years with an appraised value of approximately RMB32.1 million, whereas 236 were used for more than 10 years with an appraised value of approximately RMB16.6 million. For machineries and equipment under Target Assets II, 133 pieces have been utilized for less than 10 years with an appraised value of approximately RMB11.2 million, whereas 193 were used for more than 10 years with an appraised value of approximately RMB5.3 million. For machineries and equipment under Target Assets III, all the pieces have been utilized for less than 10 years with an appraised value of approximately RMB0.5 million. As discussed with the Valuer, as economic life of an asset does not account for factors such as maintenance, long-aged equipment can remain operational with adequate maintenance even if its used life exceeds its economic life.

For machineries and equipment excluding electronic equipment under Target Assets I, (i) approximately 0.1% of the machineries and equipment, in terms of appraised value, was evaluated with a higher newness rate determined by the lifetime method compared to the survey method; (ii) approximately 58.7% of the equipment was evaluated with a higher newness rate determined by the survey method, but not exceeding 20% relative to the lifetime method; (iii) approximately 26.3% of the equipment was assessed with a higher newness rate determined by the survey method that was more than 20% higher than that determined by the lifetime method; and (iv) approximately 14.9% of the equipment has been utilized beyond its economic life resulting in a theoretical negative newness rate determined by the lifetime method. For machineries and equipment excluding electronic equipment under Target Assets II, (i) approximately 66.3% of the equipment was evaluated with a higher newness rate determined by the survey method, but not exceeding 20% relative to the lifetime method; (ii) approximately 17.9% of the equipment was assessed with a higher newness rate determined by the survey method that was more than 20% higher than that determined by the lifetime method; and (iii) approximately 15.8% of the equipment has been utilized beyond its economic life resulting in a theoretical negative newness rate determined by the lifetime method. For machineries and equipment excluding electronic equipment under Target Assets III, (i) approximately 35.9% of the equipment was evaluated with a higher newness rate determined by the survey method, but not exceeding 20% relative to the lifetime method; (ii) approximately 64.1% of the equipment was assessed with a higher newness rate determined by the survey method that was more than 20% higher than that determined by the lifetime method; and (iii) none of the equipment has been utilized beyond its economic life. The useful life of equipment varies based on its type, quality, usage conditions, and maintenance practices. The newness rate determined by the survey method is generally higher than that determined by the lifetime method, as the survey method takes account of maintenance whereas the lifetime method does not. As regular maintenance has been conducted on aged equipment, higher newness rates determined by the survey method as compared to lifetime method were adopted based on the actual state and the operation efficiency of such equipment. For equipment that has reached its economic life but remains in normal use, the Valuer adopted an integrated newness rate of at least 15%, which aligns with the industry norm developed based on previous Notice on Forwarding the Opinions on the Operating Procedure for Asset Appraisal (for Trial Implementation) (No.23 [1996] of the Office of the State-owned Assets Administration Bureau)* (國資辦發[1996]23號國家國有資產管理局關於轉發《資產評估操作規範意見(試行)》的通知), which stipulated that the newness rate of assets under normal operation should not be less than 15% and that the appraised value should not fall below 15% of the replacement cost.

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

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

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

5. Reasons for and benefits of the Proposed Acquisitions

As disclosed in the Letter from the Board, the Company is mainly engaged in heating service business and the Controlling Shareholder Group also engages in, among others, heat production and supply, where the Group has been procuring heat from the Controlling Shareholder Group pursuant to the 2024–2026 Heat Procurement Framework Agreement (Changre Group) which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Proposed Acquisitions involve the acquisition of the Target Assets which are used for heat production purposes by the Group from the Controlling Shareholder Group. The Target Assets mainly comprise assets relating to the production of heat energy but do not comprise major supporting and ancillary assets. Given the Company has the relevant heat supply licence, it is expected that upon completion of the Proposed Acquisitions, the Group could utilize the Target Assets together with the Group's existing heat pipelines and other supporting and ancillary assets to expand the Group's heat production capacity. Upon completion of the Proposed Acquisitions, the Target Assets will be solely operated, maintained and supervised by the Group's employees. Pursuant to the Assets Transfer Agreements, upon completion of the Proposed Acquisitions, the Group will be granted a right of use of the premises which the Target Assets currently situate on at nil consideration. As such, upon completion of the Proposed Acquisitions, the Group would be able to operate the Target Assets without the need to re-locate them from the existing premises.

The Company is of the view that the Proposed Acquisitions would bring the following benefits to the Group:

(a) the Proposed Acquisitions would facilitate the integration of heat production resources between the Group and the Controlling Shareholder Group, minimize internal competition between the Group and the Controlling Shareholder Group and enhance uniform management and facilitate operational adjustments;

(b) the Proposed Acquisitions enable the optimization of resources which in turn improves the quality of the Company as a listed company and enhances its independence from the Controlling Shareholder Group. If the Proposed Acquisitions materialize, it is currently expected that the Group could reduce the amount of continuing connected transactions with the Controlling Shareholder Group by approximately RMB100 million for the year ending 31 December 2026 thereby minimizing the reliance of the Group on the Controlling Shareholder Group which is in line with the regulatory requirements for independence of listed companies from its controlling shareholder;

(c) given the Target Assets are located in the Group's core markets for heat supply, the Proposed Acquisitions enable the Group to realize the upgrading of its strategic layout, improve its heating industry supply chain and enhance the market competitiveness of the Group's main business segment. It is currently expected that upon completion of the Proposed Acquisitions, the Group will be able to increase its production capacity and scale of heat production business; and

(d) the Proposed Acquisitions enable the Group to secure stable heat source protection for its heat production business.

Based on the above, the Directors (excluding (a) Mr. Song Chi who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting; and (b) the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in the circular) consider that the terms of each of the Assets Transfer Agreements are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

To facilitate the integration of heat production resources, optimize the business structure and increase its capabilities on heat source protection

Following the acquisition of the Target Assets, the Group is better positioned to control a greater share of heat production resources. As discussed with the Management, most of the boilers in these districts serve as peak-shaving boilers, maintaining back-up heating capacity in the heating zone during peak periods or in emergencies. In accordance with the Regulations on Changchun Municipal Heat Supply Management (《長春市城市供熱管理條例》) implemented in October 2018, heat service providers using heat procured from local cogeneration plants are required to maintain peak-shaving boilers to address any suspension or shortage in heat supply from the cogeneration plants. Moreover, the peak-shaving boilers for the Target Assets are expected to provide a total heat supply of more than 6 million GJ per year, representing approximately 31% of the Company's overall heating capacity. As the usage of the boilers are fixed by the Controlling Shareholder Group and could only be used as peak-shaving boilers before the acquisition, the acquisition of the Target Assets enhances the flexibility of usage of the boilers that the Group could control to optimize the heating efficiency and quality. In particular, the main heating facilities generally operate more efficiently under optimal load conditions. During low seasons, the peak-shaving boilers could be redesignated to take over the main heating facilities to reduce heating costs and prolong the lifespan of the main heating facilities; while in emergency situations, such as sudden breakdowns of main heat facilities, the peak-shaving boilers act as a backup, activating quickly to prevent widespread heat outages. Accordingly, acquiring these Target Assets will enhance the quality of the Group's heat supply in Changchun, thereby strengthening its capacity for heat source protection.

Further, the provision of heat supply services heavily relies on the heating facilities and infrastructure such as heating pipeline network and boiler facilities, which are subject to the limitation of underground space necessary for pipelines and the local government's overall development plan. The Group's heating service area primarily covers inner urban regions of Changchun. As advised by the Management, certain peak shaving boilers of the Target Assets serve the Group's existing heating users and link to the Group's primary pipelines. The Proposed Acquisitions allow heat delivery without the need to construct new pipelines which may incur significant costs and time. By consolidating heat sources and allocating them effectively, the Group can enhance production efficiency and optimize its business operations through a stable heat supply.

To reduce the amount of continuing connected transactions

As disclosed in the circular of the Company dated 7 November 2023, the Company entered into the 2024–2026 Heat Procurement Framework Agreement (Changre Group) with Changre Group (for itself and on behalf of its subsidiaries other than the Group) on 11 October 2023, pursuant to which Changre Group shall supply heat to the Group. As advised by the Management, the Proposed Acquisitions are expected to reduce the annual connected transaction amount by more than RMB100 million and increase operating costs by approximately RMB91 million, contributing to a net increase in profit after taxation of approximately RMB5 million. This smaller size of continuing connected transactions would minimize the reliance of the Group on the Controlling Shareholder Group which is in line with the regulatory requirements for independence of listed companies from its controlling shareholder.

To minimize any potential competition

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

Taking into account of the above reasons for and benefits of the Proposed Acquisitions, we concur with the Directors' view that the Proposed Acquisition is fair and reasonable.

6. Possible financial effects of the Proposed Acquisitions

Earnings

The Target Assets mainly consist of peak-shaving boilers, which are able to supply heat through the Group's pipelines, one of the Group's major business segments. Thus the Proposed Acquisitions are expected to have positive effect on the Group's earnings. As confirmed by the Management, the taxes and professional fees related to the Proposed Acquisitions will not have a material adverse impact on the Group's net income.

Net asset value

As discussed with the Management, upon completion of the Proposed Acquisitions, the Group's cash and cash equivalents will decrease by the total consideration amount, while fixed assets will increase correspondingly. Since the total consideration aligns with the appraised value of the Target Assets, the Group's total assets would have remained unchanged. Although there are associated taxes and professional fees related to the Proposed Acquisitions, their impact on liabilities and net assets is expected to be minimal.

Working capital

As set out in the Letter from the Board, the total consideration for the Proposed Acquisitions will be financed by the Group's existing internal resources and satisfied in cash. It is anticipated that the Group's bank balance will decrease by the total consideration amount upon completion of the Proposed Acquisitions. According to the 2024 Annual Report, the Group's cash and cash equivalents were approximately RMB1,449.2 million as at 31 December 2024, which is sufficient to cover the total consideration for the Proposed Acquisitions. Additionally, as advised by the Management, the outflow of the total consideration will not have a material adverse impact on the Company's business operations.

RECOMMENDATION

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

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving each of the Assets Transfer Agreements and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited

Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 17 years of experience in the field of corporate finance advisory.