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Jilin Province Chuncheng Heating Company Limited*
吉林省春城熱力股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)
(Stock code: 1853)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS FOR THE 2020 INTERIM RESULTS ANNOUNCEMENT

- The revenue for the six months ended 30 June 2020 was RMB629.6 million, representing a decrease of 5.0% as compared with the corresponding period in 2019
- The profit before tax for the six months ended 30 June 2020 was RMB121.5 million, representing an increase of 5.2% over the corresponding period in 2019
- The profit attributable to owners of the Company for the six months ended 30 June 2020 was RMB89.6 million, representing an increase of 6.7% over the corresponding period in 2019
- Earnings per share for the six months ended 30 June 2020 was RMB0.19, representing a decrease of RMB0.05 over the corresponding period in 2019

The board of directors (the “**Board**”) of Jilin Province Chuncheng Heating Company Limited (the “**Company**”, “**we**”, “**us**”, or “**our**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2020, together with comparative figures for the six months ended 30 June 2019. The Group’s financial information for the six months ended 30 June 2020 (the “**Report Period**”) in this results announcement was based on the unaudited interim condensed consolidated financial information, which was prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2020

		For the six months ended	
		30 June	
	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	629,596	662,692
Cost of sales		<u>(478,143)</u>	<u>(515,185)</u>
Gross profit		151,453	147,507
Other income and gains, net	4	8,295	4,938
Administrative expenses		(44,338)	(40,907)
Selling expenses		(19)	(469)
Reversals of impairment on financial and contract assets, net		5,453	10,464
Finance costs	5	(808)	(4,396)
Share of profits and losses of a joint venture		<u>1,428</u>	<u>(1,653)</u>
Profit before tax		121,464	115,484
Income tax expense	6	<u>(31,889)</u>	<u>(31,481)</u>
Profit for the period		<u>89,575</u>	<u>84,003</u>
Attributable to:			
Owners of the Company		89,575	84,003
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>89,575</u>	<u>84,003</u>

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		For the six months ended	
		30 June	
		2020	2019
<i>Notes</i>		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
	Profit for the period	89,575	84,003
		<u><u>89,575</u></u>	<u><u>84,003</u></u>
	OTHER COMPREHENSIVE INCOME		
	Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
	Remeasurement of supplemental benefit obligations	—	(183)
		<u>—</u>	<u>(183)</u>
	Other comprehensive income for the period	—	(183)
		<u>—</u>	<u>(183)</u>
	Total comprehensive income for the period	89,575	83,820
		<u><u>89,575</u></u>	<u><u>83,820</u></u>
	Attributable to:		
	Owners of the Company	89,575	83,820
	Non-controlling interests	—	—
		<u>—</u>	<u>—</u>
		<u><u>89,575</u></u>	<u><u>83,820</u></u>
	Earnings per share expressed in RMB		
	Basic	0.19	0.24
		<u><u>0.19</u></u>	<u><u>0.24</u></u>
	Diluted	0.19	0.24
		<u><u>0.19</u></u>	<u><u>0.24</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	868,147	875,200
Investment properties		41	41
Intangible assets		3,620	3,750
Deferred tax assets		23,353	24,877
Investment in a joint venture		–	57,561
Right-of-use assets		4,520	2,537
Other non-current assets		1,511	4,197
		901,192	968,163
Total non-current assets			
Current assets			
Inventories		13,733	9,105
Trade and bills receivables	10	294,426	308,955
Contract assets	11	143,941	198,861
Prepayments and other receivables		12,297	379,474
Financial assets at fair value through profit or loss		50,763	–
Other current assets		13,485	9,243
Restricted deposits		2,000	–
Cash and cash equivalents		441,480	699,940
		972,125	1,605,578
Total current assets			
Current liabilities			
Trade payables	12	186,712	398,137
Other payables and accruals		133,424	90,227
Interest-bearing bank and other borrowings	13	80,763	10,715
Lease liabilities		716	1,355
Tax payable		28,520	39,273
Supplemental benefit obligations		417	617
Contract liabilities	4	96,923	681,620
Deferred income		2,931	2,555
		530,406	1,224,499
Total current liabilities			
Net current assets		441,719	381,079
Total assets less current liabilities		1,342,911	1,349,242

		30 June 2020	31 December 2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current liabilities			
Lease liabilities		1,057	1,277
Supplemental benefit obligations		9,591	9,191
Contract liabilities	4	441,917	468,437
Deferred income		30,525	29,887
Deferred tax liabilities		9,135	–
		<hr/>	<hr/>
Total non-current liabilities		492,225	508,792
		<hr/>	<hr/>
Net assets		850,686	840,450
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Equity attributable to owners of the Company			
Share capital		466,700	466,700
Reserves		383,986	373,750
		<hr/>	<hr/>
Total equity		850,686	840,450
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

Jilin Province Chuncheng Heating Company Limited (the “Company”), formerly 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 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; and
- 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).

The interim condensed consolidated financial information is presented in thousands of Renminbi (“RMB”), unless otherwise stated.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICES AND DISCLOSURES

2.1 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Conceptual Framework for Financial Reporting issued on 29 March 2018	

The nature and impact of the revised IFRSs are described below.

- (a) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any significant impact on the financial position and performance of the Group.
- (b) 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. During the six months ended 30 June 2020, the Group had no material rent concessions granted by the lessors. Therefore the amendment did not have any impact on the Group's interim condensed consolidated financial information.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (e) The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The amendments had no impact on the Group's interim condensed consolidated financial information.

3. 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 fee and heat transmission; and
- Construction, maintenance and design services, including certain rental services and the sales of goods.

The 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.

Six months ended 30 June 2020 (Unaudited)	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	555,558	74,038	629,596
Intersegment sales	–	5,998	5,998
	<u>555,558</u>	<u>80,036</u>	<u>635,594</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(5,998)</u>
Revenue			<u><u>629,596</u></u>
Segment results	117,278	4,023	121,301
<i>Reconciliation:</i>			
Elimination of intersegment results	<u>394</u>	<u>(231)</u>	<u>163</u>
Profit before tax			<u><u>121,464</u></u>
As at 30 June 2020 (Unaudited)			
Segment assets	<u>1,422,707</u>	<u>450,610</u>	<u>1,873,317</u>
Segment liabilities	<u>817,039</u>	<u>205,592</u>	<u>1,022,631</u>

Six months ended 30 June 2019 (Unaudited)	Heat supply RMB'000	Construction, maintenance and design services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	532,954	129,738	662,692
Intersegment sales	–	11,462	11,462
	<u>532,954</u>	<u>141,200</u>	<u>674,154</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(11,462)</u>
Revenue			<u><u>662,692</u></u>
Segment results	103,070	12,371	115,441
<i>Reconciliation:</i>			
Elimination of intersegment results	<u>66</u>	<u>(23)</u>	<u>43</u>
Profit before tax			<u><u>115,484</u></u>
As at 31 December 2019 (Audited)			
Segment assets	<u>2,017,928</u>	<u>555,813</u>	<u>2,573,741</u>
Segment liabilities	<u>1,327,392</u>	<u>405,899</u>	<u>1,733,291</u>

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 RMB49,018,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB46,069,000) was derived from the "Construction, maintenance and design services" segment to a single customer.

Seasonality of operations

Both the heat supply business and construction, maintenance and design services are subject to seasonality. (i) Heat supply period was from October of each year to April of the following year. (ii) The construction, maintenance and design services also experienced seasonality due to the fact that most of the projects were undertaken outside of the heat supply period to avoid disruption or suspension of heat supply. As a result, the revenue and profit may fluctuate significantly over the year.

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Provision and distribution of heat	515,555	500,763
Pipeline connection fee	27,707	27,002
Heat transmission	12,296	5,189
Engineering construction	23,169	84,549
Engineering maintenance	46,642	38,140
Design services	3,448	3,408
Sale of goods	605	3,513
	<u>629,422</u>	<u>662,564</u>
Revenue from other sources		
Gross rental income from operating leases, fixed lease payments	<u>174</u>	<u>128</u>
Total	<u><u>629,596</u></u>	<u><u>662,692</u></u>
Other income and gains, net		
Bank interest income	6,442	3,855
Government grants*	1,331	893
Gains from financial assets at fair value through profit or loss	131	–
Gain on acquisition of a subsidiary	950	–
Loss on a previously held equity interest remeasured at fair value on the acquisition date	(4,337)	–
Foreign exchange gains	2,575	26
Others	1,203	164
Total	<u><u>8,295</u></u>	<u><u>4,938</u></u>

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

(i) **Disaggregated revenue information**

	For the six months ended	
	30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Heat supply segment:		
– Provision and distribution of heat	515,555	500,763
– Pipeline connection fee	27,707	27,002
– Heat transmission	12,296	5,189
	555,558	532,954
Construction, maintenance, and design services segment:		
– Engineering construction	23,169	84,549
– Engineering maintenance	46,642	38,140
– Design services	3,448	3,408
Sale of goods	605	3,513
Total	629,422	662,564
Timing of revenue recognition		
Services delivered over time	616,521	653,862
Goods or services transferred at a point in time	12,901	8,702
Total	629,422	662,564

(a) *Contract liabilities*

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Current:		
Heat supply	63,427	670,230
Construction, maintenance and design services	33,496	11,390
	96,923	681,620
Non-current:		
Heat supply	441,917	468,437
Construction, maintenance and design services	–	–
	441,917	468,437

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:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Provision and distribution of heat	503,860	544,003
Pipeline connection fee	27,707	27,003
Construction, maintenance and design services	164	329
	531,731	571,335

(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) are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 year	55,488	53,975
Over 1 year	441,917	468,437
	497,405	522,412

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.

5. FINANCE COSTS

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

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on interest-bearing bank and other borrowings	563	4,111
Interest expenses on lease liabilities	61	84
Others	184	201
	808	4,396

6. INCOME TAX EXPENSE

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

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	30,424	28,181
Deferred tax	1,465	3,300
	<hr/>	<hr/>
Total tax charge for the period	31,889	31,481
	<hr/> <hr/>	<hr/> <hr/>

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:

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit before tax	121,464	115,484
Tax at the statutory tax rate of 25%	30,366	28,871
Effect of lower tax rates of certain subsidiaries	–	(296)
Non-taxable income	(321)	–
Non-deductible expenses	1,193	2,863
Tax losses not recognized	762	132
Others	(111)	(89)
	<hr/>	<hr/>
	31,889	31,481
	<hr/> <hr/>	<hr/> <hr/>

The Company's PRC subsidiaries are subject to income tax at 25% on their respective taxable incomes as calculated in accordance with the Enterprise Income Tax Law and its relevant regulations (the "Actual Method") except for Heating Engineering Design and Change 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%.

7. DIVIDENDS

(a) Interim dividends

The board of directors did not recommend the distribution of any interim dividends to shareholders for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

(b) Dividends payable to shareholders attributable to the previous financial year, approved during the interim period

Final dividend of RMB0.17 per share (inclusive of tax) amounting to RMB79.3 million in aggregate in respect of the financial year ended 31 December 2019, has been approved in the 2019 annual general meeting. The above final dividend has not been paid to shareholders as at 30 June 2020.

8. EARNINGS PER SHARE

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

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company (RMB)	<u>89,575</u>	<u>84,003</u>
Weighted average number of ordinary shares		
Basic	<u>466,700,000</u>	<u>350,000,000</u>
Diluted	<u>466,700,000</u>	<u>350,000,000</u>
Earnings per share attributable to owners of the Company (RMB per share)		
Basic	<u>0.19</u>	<u>0.24</u>
Diluted	<u>0.19</u>	<u>0.24</u>

9. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2020, the property, plant and equipment decreased by RMB7,053,000, which was mainly because of the depreciation of pipelines.

None of the Group's property, plant and equipment was pledged to secure the Group's interest-bearing bank and other borrowings as at 30 June 2020 (31 December 2019: nil).

There was no impairment of property, plant and equipment provision for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

10. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	332,248	349,090
Less: Provision for impairment	<u>(42,477)</u>	<u>(40,135)</u>
	289,771	308,955
Bills receivable	<u>4,655</u>	<u>–</u>
	<u>294,426</u>	<u>308,955</u>

Trade receivables were unsecured and non-interest-bearing.

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 year	246,496	286,361
Between 1 and 2 years	41,099	18,677
Between 2 and 3 years	5,401	3,125
Between 3 and 4 years	777	477
Between 4 and 5 years	653	315
Over 5 years	<u>–</u>	<u>–</u>
	<u>294,426</u>	<u>308,955</u>

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At the beginning of the period/year	40,135	23,941
Impairment loss recognized	7,624	17,600
Impairment loss reversed	<u>(5,282)</u>	<u>(1,406)</u>
	42,477	40,135
At the end of the period/year	<u>42,477</u>	<u>40,135</u>

11. CONTRACT ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contract assets arising from construction and maintenance services	152,970	213,930
Less: Provision for impairment	(9,029)	(15,069)
	<u>143,941</u>	<u>198,861</u>

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

12. TRADE PAYABLES

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 year	139,249	332,668
More than one year	47,463	65,469
	<u>186,712</u>	<u>398,137</u>

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020			31 December 2019		
	Effective interest rate	Maturity	RMB'000 (Unaudited)	Effective interest rate	Maturity	RMB'000 (Audited)
Current						
Bank borrowings - unsecured	4.02%-4.35%	2020-2021	<u>80,763</u>	4.35%	2020	<u>10,715</u>
				30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	
Analysed into:						
Within one year				<u>80,763</u>	<u>10,715</u>	
				<u>80,763</u>	<u>10,715</u>	
				30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	
Interest-bearing bank and other borrowings denominated in – RMB				<u>80,763</u>	<u>10,715</u>	
				<u>80,763</u>	<u>10,715</u>	

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, amidst the severe challenges posed by the COVID-19 pandemic and the complex and ever-changing domestic and international environment, the whole country holistically advanced various works concerning the prevention and control of COVID-19 pandemic as well as economic and social development and resolutely implemented various decisions and deployments under the strong leadership of the Central Committee of the Communist Party of China with Comrade Xi Jinping at the core. While implementing stringent anti-epidemic measures against the COVID-19 pandemic, the Company adhered to the principle of quality and efficiency-focused and reform and innovation-driven development, and continued to enhance its modernized corporate governance, increased investment for heat supply technology innovation, and broadened the channels for nurturing talents in the field of heat supply, and all these enabled the Group to maintain its leading position in the heat supply industry in Jilin Province.

I. Business Review

In the first half of 2020, the Group has always focused on enhancing its overall strength and vigorously promoted technological innovation. Under the proper leadership of the Group's Party Committee and the Board of Directors, the quality of our heating services improved steadily while the construction, maintenance and design business progressed simultaneously. The Group also achieved remarkable results in mergers and acquisitions within the industry, and its overall operating results grew steadily as compared to the corresponding period in the previous year.

(1) Heat Supply Business

Heat supply is the Group's core business. Over two decades' operating history of heat supply enabled the Group to accumulate extensive experience in the heating industry and establish its leading position in the industry. In the first half of 2020, the Group continued to strengthen the operation, maintenance and management of its heat supply facilities, with various operational indicators showing steady improvement. The Group also carried out its heating business precisely and efficiently under the clean heating model of co-generation, fully leveraging the advantages of the smart heat supply network system.

As at 30 June 2020, the heat service area of the Group (including Xixing Energy) was approximately 42.73 million sq.m. (of which 3.23 million sq.m. were serviced by Xixing Energy), representing an increase of 4.38 million sq.m. from 38.35 million sq.m. for the corresponding period in 2019. As at 30 June 2020, the Group (including Xixing Energy) had 348,570 heat supply users (28,237 of which were serviced by Xixing Energy), representing an increase of 41,604 users from 306,966 users for the corresponding period in 2019. From 1 January 2020 to 30 June 2020, the revenue of the Group from

heat supply business amounted to RMB555.6 million, representing an increase of approximately RMB22.6 million, or 4.2%, from RMB533.0 million for the corresponding period in 2019.

Company

Customers

Customers of our heating business are generally residential and non-residential users within the Company's heat service area. The table below sets out a breakdown of the number of, and revenue contribution by, residential and non-residential users for the six months ended 30 June 2020.

	As at 30 June 2020		As at 30 June 2019	
	Number of customers	% of revenue from heat supply	Number of customers	% of revenue from heat supply
Residential users ⁽¹⁾	285,146	66.0%	270,130	66.9%
Non-residential users ⁽²⁾	35,187	34.0%	36,836	33.1%
Total	<u>320,333</u>	<u>100%</u>	<u>306,966</u>	<u>100%</u>

Notes:

- (1) The number of residential users is per household.
- (2) Non-residential users include commercial users and other users which primarily include industrial users, corporate users and underground car park users, etc.

Heat procurement

In 2020, the Company continued its operation of clean heating through cogeneration and provided heat supply service covering an area of 39.5 million sq.m. in Changchun. Heat source of the Company was entirely from three local cogeneration plants, in particular, our primary pipelines are the only primary heat supply pipelines connecting No.4 Cogeneration Plant and No.5 Cogeneration Plant with the inner urban areas of Changchun. 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, and we are able to control the distribution of heat purchased to a certain extent, thus taking proactive initiatives in the heating market of Changchun. Currently, the heat purchased from the cogeneration plants is able to meet all of the Company's needs for its heat supply business.

According to the relevant documents issued by Changchun Municipal Development and Reform Commission, the heat procurement price was RMB34/GJ (9% VAT included) for January to June 2020. As at 30 June 2020, the total heat procurement by the Group amounted to 12.56 million GJ with heat procurement cost amounted to RMB410.1 million, and 8.14 million GJ of heat was used for the Company's heat production purpose.

Heat transmission

For the six months ended 30 June 2020, approximately 4.4 million GJ of the heat procurement quota the Company obtained from the cogeneration plants was transferred to four other heat service providers. We received a total heat transmission fee of RMB13.4 million, representing an increase of 134.9% from the corresponding period in 2019. Heat supply procured from the cogeneration plants is first used to satisfy our own needs for heat supply.

The following table sets forth the breakdown of the usage of the Company heat procurement from January to June 2020 and the corresponding period in 2019:

	As at 30 June	
	2020	2019
Estimated heat procurement quota (GJ) ⁽¹⁾	14,180,000	12,190,000
Heat procurement quota transferred (GJ) ⁽²⁾	4,418,099	2,947,777
Actual consumption (GJ) ⁽³⁾	8,139,573	8,535,346
Total heat procured ⁽⁴⁾	12,557,672	11,483,123
Utilization rate (%) ⁽⁵⁾	57.4%	70.0%
Heat service area (million sq.m.) ⁽⁶⁾	39.50	38.35

Notes:

- (1) The heat procurement quota was an estimate of the heat procurement prior to each heat supply period based on the historical heat procurement amount.
- (2) During the Reporting Period, we transferred certain portion of procured heat to four other heat service providers. We charged heat transmission fees accordingly.
- (3) Actual consumption of 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 include both the heat service area which we fully and partially charge for our heat fees.

Smart heat supply network system

In the first half of 2020, the Company strongly supported technological innovation and was committed to continuously improving the level of heat production automation and electrification, and continued to lead the heat supply industry in the application of advanced technology. In the area of the construction of smart heat network system, the Company is mainly exploring the following directions:

1. Big data system for smart heat supply
 - (1) Establishing a multi-dimensional heat supply data warehouse and a data middle-platform system supported by multi-computational methods to achieve cross-system data correlation, enhance computational and statistical capabilities, and optimize results of analysis; providing supporting services to meet the needs of various departments of the Group and avoiding duplication of construction in the future;
 - (2) Integrating the three elements of heat production, management and service, establishing correlation, relational and regression models tailored for the heating business, analyzing the non-linear interrelationship of data, and realizing various trend predictions, anomaly detection and prediction, behavioral personas for heat supply, revenue and loss attribution analysis, etc., such that the system operation supports fundamental corporate behavior and the data value supports decision optimization and strategic direction;
 - (3) Realizing smart heating supported by artificial intelligence. Establishing the most robust computational power for heat supply, making dynamic and responsive decisions and commands based on natural factors, factors affecting user demand, and changes in the production system to realize the linkage across heat supply elements, and realizing on-demand heat supply for users with professional support on the premise of maximizing energy saving and environmental protection.

2. 3D pipeline map

- (1) Creating a virtual reality 3D digital piping system outlining all heat supply elements, including heat sources, distribution pipeline network, various types of heat exchange stations, distribution pipeline network stations, and user access equipment. In addition to describing the static physical properties of the elements, it will also describe the dynamic properties associated with heat supply;
- (2) The existing system to be interfaced with the 3D digital pipeline system to realize the digital sandbox for heating command, which would allow scenario-based observation over the operation of heat supply elements and make decisions and formulate detailed command plans accordingly;
- (3) The utilization of the 3D digital pipeline system as the entrance to each system, to perform scenario-based and qualitative check and review on the system feedback data, and also to perform drill down to achieve data traceability on a quantitative basis, so as to achieve the integration of the various systems.

Heat supply emergency repair

The Company has always attached great importance to the quality of its heat supply services, while striving to optimize user experience, the Group has adopted a “zero tolerance” attitude towards the failure of heat supply facilities. In order to improve the efficiency of emergency repair of heat supply facilities, the Group introduced reforms to the emergency repair mechanism, improved the equipment level of the Pipeline Company, and carried out repairs and maintenance in strict compliance with the heat supply emergency repair plan and procedures. In the first half of 2020, the Company basically eliminated heat supply interruptions caused by failures of heat supply facilities.

Technological achievements

The Company, with cogeneration as its backbone, continues to embrace new production and operation ideas, commits to the research and development of technology in the heating industry, enhances the application of technological advancement in the heating industry, and gradually advances towards precise fine-tuning and exact heat supply. In the first half of 2020, the Group was granted a total of 50 patents and software copyrights, covering various areas such as heat supply equipment modification and upgrade, process construction and modification, monitoring and control over heat supply operation, industrial design, and enhancement of office automation.

Meanwhile, the Company also developed 6 software systems to enhance information management and conducted 4 optimization designs and studies, namely “Optimization design study of fixed abutment structure of directly-buried heat supply pipelines”, “Optimization design and experimental study of built-in heat supply pipeline support and back anchor nodes in pipeline corridor”, “Design and experimental study of pre-set wireless signal transmission device in underground well chamber”, “Research on new sealing materials for gaps created by PE-RT II pipeline passing through wall”; 1 research and development project, namely “Research and development of heat supply equipment with heat storage function based on solar energy and peak-to-valley power”; 1 technology retrofit for the implementation of “Energy conservation retrofit for circulating pump”; 3 technological innovations for the implementation of “An online flushing device to change the direction of fluid in a plate heat exchanger”, “Primary water mixing System based on distributed pumps” and “Remote patch and plug-in return water temperature collector”, all of the above represent encouraging and remarkable achievements.

Xixing Energy

On 8 June 2020, the Group entered into an equity transfer agreement with Changchun FAWSN Group Co., Ltd. (長春一汽富晟集團有限公司) (“**Changchun FAWSN**”) for the acquisition of 50% equity interest in Xixing Energy held by Changchun FAWSN. The equity transfer price paid by the Group amounted to RMB52.0 million. For details, please refer to the announcements of the Company dated 8 June 2020 and 11 June 2020. Upon completion of the transaction, the Group holds 100% equity interest in Xixing Energy and Xixing Energy has become a wholly-owned subsidiary of the Group. After the completion of the merger and acquisition, the Group’s heat service area increased by approximately 8.1% and the number of users increased by approximately 8.8%, which is of great significance to the Group’s expansion of its heat service area coverage and enhancement of its brand image.

As at 30 June 2020, the heat service area of Xixing Energy was 3.23 million sq.m., with a total of 28,237 users, of which 24,653 were residential users and 3,584 were non-residential users. In the first half of 2020 (January to April), Xixing Energy supplied a total of 0.54 million GJ of heat to its heat service area, of which 0.35 million GJ was generated by its own heat production and 0.19 million GJ was purchased from third party.

(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 six months ended 30 June 2020, revenue generated from the Group's construction, maintenance and design services amounted to RMB74.0 million, representing a decrease of RMB55.7 million, or 42.9%, from RMB129.7 million for the corresponding period in 2019.

1. *Engineering construction*

For the six months ended 30 June 2020, revenue generated from engineering construction amounted to RMB23.2 million, representing a decrease of RMB61.3 million, or 72.6%, from RMB84.5 million for the corresponding period in 2019. This was mainly due to no new large-scale projects were undertaken during the period, resulting in a relatively lower volume of projects undertaken in the first half of 2020 as compared to the corresponding period in 2019.

In the first half of 2020, our engineering construction business was mainly focused on the following: (1) preparing for bidding, procurement of raw materials and initial design of projects for potential projects, so as to be well prepared for more market opportunities and challenges ahead; (2) making reasonable arrangements for the progress of "Three Supplies and Property Management (三供一業)" projects and completing the closeout for those projects with excellent quality and quantity assurance; (3) enhancing team building, optimizing management efficiency, taking advantage of the seasonal decrease in project volume in spring to strengthen the sorting and classification of basic data such as settlements and statistics, so as to improve the efficiency of the closeout of construction projects.

2. *Engineering maintenance*

For the six months ended 30 June 2020, revenue generated from engineering maintenance amounted to RMB46.6 million, representing an increase of RMB8.5 million, or 22.3%, from RMB38.1 million for the corresponding period in 2019. This was mainly due to the addition of “Three Supplies and Property Management” projects.

In the first half of 2020, our engineering maintenance business was mainly focused on the following: (1) steadily advancing the construction progress of the “Three Supplies and Property Management” projects in a number of cities in Jilin Province to ensure that the engineering maintenance work would be completed within the required time frame and in accordance with the task planning; (2) maintaining the volume of engineering maintenance business in Changchun and optimizing the engineering maintenance business model by leveraging the scale our heat supply business; (3) expanding and broadening our revenue channels in a multi-dimensional manner by tapping into new businesses such as cleaning services, sales of crystal products and entrusted services of operation and maintenance, which will open up new directions for the future development of the engineering maintenance business.

3. *Design services*

For the six months ended 30 June 2020, revenue generated from design services amounted to RMB3.4 million, remained at a similar level as compared with RMB3.4 million for the corresponding period in 2019.

In the first half of 2020, the engineering maintenance business was mainly focused on the following: (1) the addition of new design service agreements, the number of which remained at a similar level with the corresponding period last year, and the volume of business remained stable amid the COVID-19 pandemic; (2) further increasing efforts and investment in technological innovation and research and development projects, with two new utility model patents and two new software copyrights granted in the first half of 2020, laying a solid foundation for the development direction of technological innovation and research and development; (3) carrying out school-enterprise cooperation projects with universities and higher education institutions. Our design service team has cooperated with Jilin University and Changchun Institute of Technology in a number of research projects to continue to facilitate the Group’s transformation into an innovative modern enterprise with the latest results of intelligent technology research.

(3) Safety Management

In the first half of 2020, during the special period of epidemic prevention and control, the Group has always focused on “fighting epidemic”, “maintaining heat supply” and “preventing accidents”, and has comprehensively strengthened its safety management efforts without any slackening or compromise, ensuring the safe and stable operation of the Group’s various production operations while effectively safeguarding the personal safety of its employees. The Group strictly adhered to its production safety accountability system, continuously improved its production safety management model, launched specific safety improvement activities, investigated potential safety hazards in product level by level, and focused on safety control in key areas and important links. The Group has comprehensively strengthened safety education and emergency drills and training during non-heat supply periods to enhance the safety precautions and emergency awareness of its staff and effectively enhanced the safety management level of the Group. During the Reporting Period, the Group did not encounter any major safety incidents.

II. Financial Position and Operating Results

(1) Revenue

For the six months ended 30 June 2020, the Group’s revenue decreased by 5.0% to RMB629.6 million as compared with RMB662.7 million for the corresponding period in 2019, primarily due to the decline in the Group’s revenue from its construction, maintenance and design business. (i) For the six months ended 30 June 2020, revenue of heat supply business increased by 4.2% to RMB555.6 million as compared with RMB533.0 million for the corresponding period in 2019, primarily attributable to the increase in heat service area of the Group during the period; (ii) for the six months ended 30 June 2020, revenue of construction, maintenance and design business decreased by 42.9% to RMB74.0 million as compared with RMB129.7 million for the corresponding period in 2019, mainly due to the fact that the construction, maintenance and design segment did not undertake any new large-scale projects during the period, resulting in a relatively lower volume of projects undertaken in the first half of 2020 as compared to the corresponding period in 2019.

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

	January to June 2020 RMB'000	January to June 2019 RMB'000	Percentage of change
Heat supply, of which:			
– Provision and distribution of heat	515,555	500,763	3.0%
– Pipeline connection fee	27,707	27,002	2.6%
– Heat transmission	12,296	5,189	137.0%
Subtotal	555,558	532,954	4.2%
Construction, maintenance and design services, of which:			
– Engineering construction	23,169	84,549	-72.6%
– Engineering maintenance	46,642	38,140	22.3%
– Design services	3,448	3,408	1.2%
– Others	779	3,641	-78.6%
Subtotal	74,038	129,738	-42.9%
Total	629,596	662,692	-5.0%

(2) *Other Income and Other Gains, Net*

For the six months ended 30 June 2020, the Group's other income and other gains, net increased by 69.4% to RMB8.3 million as compared with RMB4.9 million for the corresponding period in 2019, primarily due to (i) an exchange gain of RMB2.6 million recognized for the six months ended 30 June 2020 as a result of the proceeds from the Company's Listing in October 2019 and the appreciation of HKD against RMB which led to an increase in exchange gain; (ii) loss on a previously held equity interest remeasured at fair value on the acquisition date with the amount of RMB4.3 million, mainly due to the acquisition of Xixing Energy during the period; (iii) interest income on bank deposits of RMB6.4 million recognized for the six months ended 30 June 2020, representing an increase of 64.1% as compared to RMB3.9 million for the corresponding period in 2019. The increase in interest income was attributable to the increase in bank deposits as a result of the proceeds from the Company's Listing in October 2019.

(3) *Cost of Sales*

For the six months ended 30 June 2020, the Group's cost of sales decreased by 7.2% to RMB478.1 million as compared with RMB515.2 million for the corresponding period in 2019. The following table sets out a breakdown of the cost of sales by business segment:

	January to June 2020 RMB'000	January to June 2019 RMB'000	Percentage of change
Cost of sales by business segment			
Heat supply	415,399	406,007	2.3%
Construction, maintenance and design services	62,744	109,178	-42.5%
Total	478,143	515,185	-7.2%

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, 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:

	January to June 2020 RMB'000	January to June 2019 RMB'000	Percentage of change
Cost of sales for heat supply			
Heat procurement cost	252,977	245,346	3.1%
Maintenance and repair	20,426	16,450	24.2%
Labor	42,450	41,664	1.9%
Depreciation and amortization	42,901	43,579	-1.6%
Utility	31,092	29,657	4.8%
Input VAT transferred out	19,651	22,868	-14.1%
Others	5,902	6,443	-8.4%
Total	415,399	406,007	2.3%

For the six months ended 30 June 2020, the Group's heat procurement cost increased by 3.1% to RMB253.0 million as compared with RMB245.3 million for the corresponding period in 2019, primarily due to an increase in the heat service area and the costs of heat procurement from cogeneration plants in 2020.

For the six months ended 30 June 2020, the Group's maintenance and repair costs increased by 24.2% to RMB20.4 million as compared with RMB16.5 million for the corresponding period in 2019, primarily due to the addition of the "Balancing Heating Between Homes" project during the current period.

For the six months ended 30 June 2020, the Group's input VAT transferred out decreased by 14.1% to RMB19.7 million as compared with RMB22.9 million for the corresponding period in 2019, primarily due to the increase in the proportion of income not exempt from tax to all income for the current period as compared to the corresponding period in 2019.

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. For the six months ended 30 June 2020, the cost of sales for construction, maintenance and design services decreased by 42.5% to RMB62.7 million as compared with RMB109.2 million for the corresponding period in 2019. The change in cost of this business was generally in line with the decrease in revenue from construction, maintenance and design services.

(4) *Gross Profit and Gross Profit Margin*

For the six months ended 30 June 2020, the Group's gross profit increased by 2.7% to RMB151.5 million as compared with RMB147.5 million for the corresponding period in 2019, mainly due to the steady increase in gross profit as the Company's heating business grew in line with the increase in its heat service area.

(5) *Administrative Expenses*

For the six months ended 30 June 2020, the Group's administrative expenses increased by 8.3% to RMB44.3 million as compared with RMB40.9 million for the corresponding period in 2019, primarily due to increase in administrative expenses as a result of the addition of required management personnel upon Listing for management purposes.

(6) *Finance Costs*

For the six months ended 30 June 2020, the Group's finance costs decreased by 81.8% to RMB0.8 million as compared with RMB4.4 million for the corresponding period in 2019, primarily due to the loan repayment of the Group in the second half of 2019.

(7) *Share of Profits and Losses of a Joint Venture*

On 11 June 2020 (the acquisition date), the Company acquired Xixing Energy, a joint venture, for which investment gain of RMB1.4 million was recognized for January to May 2020, an increase of RMB3.1 million over the corresponding period in 2019, with the recognition of profit for January to May 2020 resulting from the heating income generated during the heating period from January to April 2020.

(8) *Income Tax Expense*

For the six months ended 30 June 2020, the Group's income tax expense increased by 1.3% to RMB31.9 million as compared with RMB31.5 million for the corresponding period in 2019, mainly due to the increase in taxable income as calculated in accordance with the Enterprise Income Tax Law and its relevant regulations.

(9) *Profit for the Period*

For the six months ended 30 June 2020, the Group's profit for the period increased by 6.7% to RMB89.6 million as compared with RMB84.0 million for the corresponding period in 2019. The increase in net profit of RMB5.6 million as compared to the corresponding period of 2019, was due to an increase in gross profit margin of the heating business despite the slight decrease in revenue and costs.

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

For the six months ended 30 June 2020, the Group's profit attributable to the owners of the Company increased by 6.7% to RMB89.6 million as compared with RMB84.0 million for the corresponding period in 2019. As the consolidated subsidiaries of the Group are wholly-owned by the Company, the profit attributable to the owners of the Company was consistent with the profit for the period.

(11) *Liquidity and Capital Resources*

The Group's cash and cash equivalents decreased by 36.9% to RMB441.5 million as at 30 June 2020 as compared with the balance of RMB699.9 million as at 31 December 2019, primarily due to (i) cash payments of RMB234.1 million for goods and services, resulting in a net cash outflow from operating activities of RMB282.7 million; (ii) payments for purchases of fixed assets and acquisition of a subsidiary during the period, resulting in a net cash outflow from investing activities of RMB37.6 million; and (iii) new borrowings of RMB70.1 million and dividend payments of RMB4.7 million during the period, resulting in a cash inflow from financing activities of RMB59.2 million.

(12) Capital Expenditure

The Group's capital expenditure decreased by 14.9% to RMB7.4 million for the six months ended 30 June 2020 as compared with RMB8.7 million for the corresponding period in 2019. The capital expenditure is mainly due to the purchase of property, plant and equipment.

(13) Capital Structure

As at 30 June 2020, the equity attributable to owners of the Company increased by RMB10.2 million to RMB850.7 million as compared to 31 December 2019, primarily due to the declaration of the final dividend for the year 2019 during the year and the increase in net profit for the current period. As at 30 June 2020, the Group had interest-bearing bank and other borrowings amounting to approximately RMB80.8 million with fixed interest rates ranging from 4.02% to 4.35% per annum.

(14) Material Acquisitions and Disposals

On 8 June 2020, the Group entered into an equity transfer agreement with Changchun FAWSN Group Co., Ltd.* (長春一汽富晟集團有限公司) (“**Changchun FAWSN**”) to acquire a 50% equity interest in Xixing Energy held by Changchun FAWSN. The Group settled the consideration of RMB52.0 million for the equity transfer. The Group held 100% equity interest in Xixing Energy and Xixing Energy became a wholly-owned subsidiary of the Group upon completion of the transaction. For details, please refer to the announcements of the Company dated 8 June 2020 and 11 June 2020.

(15) Pledge of Assets

As at 30 June 2020, the Group did not have any charge on its assets.

(16) Contingent Liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities.

III. Use of Proceeds from the Listing

The Shares of the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 24 October 2019 (the “**Listing Date**”). 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 global 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 global offering, after deducting the underwriting commission and other estimated expenses in connection with the global offering, amounted to approximately HK\$220.5 million (the “**IPO Proceeds**”).

The Company has utilized and will utilize the IPO Proceeds for the purposes which are consistent with those set out in the prospectus of the Company dated 27 September 2019. The IPO Proceeds 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 IPO Proceeds, has not been utilized since the Listing Date and up to 30 June 2020. It is expected to be utilized for further increasing the level of automation in our heat supply business by the end of 2021 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 IPO Proceeds, has not been utilized since the Listing Date and up to 30 June 2020. It is expected to be utilized for upgrading and replacement of existing primary distribution pipelines and heat supply facilities by the end of 2021 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 IPO Proceeds, has been partially utilized. Since the Listing Date and up to 30 June 2020, HK\$24.0 million of which has been utilized for our heat service area expansion to grow our heat supply business, 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 and is intended to be fully utilized by the fourth quarter of 2020.
- (4) approximately HK\$11.0 million (equivalent to approximately RMB10.0 million), representing approximately 5.0% of the IPO Proceeds, has been utilized in full for financing part of the consideration for the acquisition of a 50% equity interest in Xixing Energy on 8 June 2020 while the remaining consideration has been financed by the internal resources of the Group.

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

With the impact of the recent outbreak of the COVID-19, the Board considered that the execution of the Group's expansion plan as set out above may be impeded. The Company is currently reviewing the Group's expansion plan and will closely monitor the development of the situation from time to time and make further announcement(s) regarding the situation as and when appropriate.

IV. Risk Factors and Risk Management

(1) Industry Risk

The pricing of heat sources in the heat supply industry is usually subject to regulation and control by government departments, and the heat supply enterprises cannot have the right to regulate the purchase price of heat sources directly. In addition, the prices of services provided by the Group's engineering construction, maintenance and design business are also subject to control and regulation under government policies. Therefore, the Group's operations may be affected by adjustments to relevant laws and regulations as well as local policies in the PRC.

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

(2) Policy Risk

Changes in national and local government policies have a profound impact on the industry. From the perspective of national policies, the development of environmentally friendly, energy-saving and sustainable green cities will become the trend of urban heat supply in the future. In recent years, the PRC government has attached great importance to the monitoring of environmental protection issues by laws and regulations, and has issued a series of environmental protection policies and imposed further restrictions and requirements targeting pollution issues in relevant industries.

In formulating its future development goals and directions, the Group will adhere to the principles and requirements set out in various national and local government economic policies, industrial policies, as well as laws and regulations.

(3) Climate Risk

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

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

V. Prospects and Outlook

In 2020, while implementing stringent anti-epidemic measures amid the COVID-19 pandemic, the Group will continue to develop its heat supply business, leverage its advantages in the industrial chain, maintain its steadfast approach in leading industry development with new development concepts, focus on scientific and technological innovation, technological upgrade and clean energy development. The Group will also strive to enhance its innovation and leadership and expand its assets scale 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

In recent years, the PRC government has been proactively carrying out reform of the heat supply system. Large local enterprises are encouraged to facilitate the consolidation of the heat supply industry. 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, improve the quality of heating and service in order to further secure its leading position in the industry.

The Group will continue to actively promote the use of clean energy for heating in order to achieve higher quality in business development. Meanwhile, the Group will continue to explore new heat supply systems, with a view to establish a new heating supply system with co-generation as the main heating source and other clean energy as complementary sources. On the basis of the current intelligent regulation and control at the primary network level, the Group will gradually realize joint control of the network and source, and gradually move towards pinpoint control and precise heat supply. The application and promotion of new energy heating technology will enable the Group to develop the most cost-competitive new energy heating model tailored to local conditions through an in-depth analysis of the cost curve of new energy heating technology, thus creating new drivers for profit growth while defending the blue sky for future generations.

The Group will increase its efforts and investment in heating-related 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.

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

In the face of the opportunities and challenges arising from the country's "New Infrastructure", the Group will further enhance its independent research and development capabilities on the basis of improving the smart heating network platform and heating network interconnection and intercommunication, increase and extend the channels for promoting the construction, maintenance and design business segment, and expand the revenue-generating capability of this segment in a multi-dimensional manner. In the second half of the year, we will further enhance the technology and service level of our construction, maintenance and design business. On the basis of our existing businesses, we will enhance and increase our professional qualifications, establish a sound and comprehensive mechanism for the commercialization of our scientific and technological achievements, and promote our industrial upgrading with our existing intellectual property rights and patented technologies, so as to achieve the economic development of the Group and safeguard people's livelihood with heat supply. Meanwhile, we will also focus on the advancement and completion of existing projects, optimize business processes, improve service quality and build our brand reputation, laying a solid foundation for the successful completion of various tasks throughout the year and promote quality development.

The Group will also extend its market influence, broaden its customer base 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.

VI. Events after the Reporting Period

There were no other important events or transactions affecting the Group from 30 June 2020 to the date of this announcement.

OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

Compliance with Corporate Governance Code

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

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct and rules governing dealings by all of our Directors and supervisors (“Supervisors”) in the securities of the Company. Having made specific enquiry of the Directors and Supervisors of the Company, all Directors and Supervisors have confirmed that they have strictly complied with the required standard set out in the Model Code during the six months ended 30 June 2020. The Company has also set up guidelines in respect of the dealings in the Company’s securities by its relevant employees (as defined in the Listing Rules), which terms are no less exacting than the Model Code.

Directors’ Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company, ensuring that the preparation of the financial statements of the Company complies with the relevant laws and regulations and the applicable accounting standards and also ensuring that the financial statements of the Company will be published in a timely manner.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities or redeemable securities for the six months ended 30 June 2020.

Convertible Securities, Options, Warrants or Similar Rights

For the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had issued or granted any convertible securities, options, warrants or similar rights or exercised any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted by the Company or any of its subsidiaries at any time.

Issue of Bonds

For the six months ended 30 June 2020, neither the Company nor its subsidiaries had issued any bonds.

Review of Interim Results

The Company established the audit committee of the Company (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three members, namely Mr. Poon Pok Man, Mr. Liu Changchun and Mr. Wang Yuguo. Mr. Poon Pok Man is the chairman of the Audit Committee. The Audit Committee and independent auditors of the Company, Ernst & Young, have reviewed the unaudited interim results of the Group for the six months ended 30 June 2020.

Amendment to the Articles of Association

Amendment to the Articles of Association of the Company was approved at the annual general meeting of the Company held on 27 May 2020. Details of such amendments are set out in the circular of the Company dated 9 April 2020. An up-to-date version of the Articles of Association is also available on the Company’s website and the Hong Kong Stock Exchange’s website.

Publication of Interim Results and Interim Report

This announcement is published on the websites of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.cc-tp.com.cn>). The 2020 interim report of the Company containing all the information required by the applicable Listing Rules will be despatched to the Shareholders and available on the above websites in due course.

Definitions

“Articles” or “Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Board”	the board of Directors of the Company
“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
“Company”, “we”, “us”, or “our”	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

“Corporate Governance”	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	the lawful currency of Hong Kong
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“Listing”	the listing of the H Shares of the Company on the main board of the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“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
“Pipelines Company”	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
“Reporting Period”	the period from 1 January 2020 to 30 June 2020
“RMB”	the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 per share
“Shareholder(s)”	the shareholder(s) of the Company
“Three Supplies and Property Management”	heat supply, water supply, electricity supply and property management services

“Xixing Energy”

Jilin Province Xixing Energy Limited* (吉林省西興能源有限公司), previously known as Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司)

“%”

percentage

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

Jilin, the PRC, 21 August 2020

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

* For identification purpose only