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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)

ANNOUNCEMENT

- (1) MAJOR AND CONNECTED TRANSACTION:
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CHANGCHUN YATAI HEATING COMPANY LIMITED***
- (2) PROPOSED CONTINUING CONNECTED TRANSACTIONS**
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SUPERVISORY COMMITTEE**

Financial Adviser to the Company



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



Giraffe Capital Limited

PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN YATAI HEATING

The Board is pleased to announce that on 29 October 2020 (after trading hours), the Vendor and the Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, 100% equity interests in Yatai Heating for the Consideration of RMB318,376,300 (equivalent to approximately HK\$366.89 million) in accordance with the terms and conditions of the Acquisition Agreement.

As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements thereunder.

Given that the Vendor 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 Acquisition Agreement, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25%, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PROPOSED CONTINUING CONNECTED TRANSACTIONS

Upon the transfer of certain coal-fired boilers to Changchun Heating Group as part of the Reorganisation, Yatai Heating will begin to procure from Changchun Heating Group heat produced by these coal-fired boilers to continue the supply of heat to its existing customers in its ordinary and usual course of business. For this purpose, Yatai Heating has entered into the Heat Procurement Framework Agreement with Changchun Heating Group, pursuant to which Yatai Heating has agreed to procure heat from Changchun Heating Group for an effective period of three years commencing on 1 January 2021 and ending on 31 December 2023.

Given that Changchun Heating Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company and thus a connected person of the Company, the transactions contemplated under the Heat Procurement Framework Agreement will, as from Completion, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Heat Procurement Framework Agreement exceed 5% and each of the annual caps exceeds HK\$10,000,000 (equivalent to approximately RMB8,677,800), the transactions contemplated under the Heat Procurement Framework Agreement are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

Reference is made to (i) the Prospectus; (ii) the 2019 Annual Report; and (iii) the 2020 Interim Report in relation to, among others, the utilization of the Net Proceeds from the Global Offering, which amounts to approximately HK\$220.5 million.

As at the date of this announcement, the Group has utilized approximately RMB31.6 million, representing approximately 15.8% of the Net Proceeds, and the Unused Net Proceeds amount to approximately RMB167.9 million. The Directors, having considered the recent business environment and development of the Group (in particular the impact of the outbreak of the novel coronavirus pandemic (COVID-19) to the business environment in the Jilin Province), propose to change the use of the Unused Net Proceeds. Particulars of the proposed change in the use of the Net Proceeds are set out in the section headed “(3) Proposed change in use of proceeds from the Global Offering” in this announcement.

As required by Article 61 of the Articles of Association, the proposed change in use of proceeds from the Global Offering is subject to the approval by the Shareholders.

PROPOSED CHANGE IN COMPOSITION OF SUPERVISORY COMMITTEE

Upon the recommendation of Changchun SCIO Group as a Shareholder and the nomination of the Supervisory Committee, the Company proposes to put forward a resolution at the EGM for the Shareholders to consider and, if thought fit, approve the proposed appointment of Ms. Zhang Wei as a Supervisor (not being an employee representative Supervisor) with effect from the date of the EGM. Ms. Wang Xuejing will cease to be a Supervisor upon the Shareholders approving the proposed appointment of Ms. Zhang as a Supervisor at the EGM.

GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder and for the Shareholders to consider and, if thought fit, approve, among others, the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee. The Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee will be proposed to be approved by way of ordinary resolutions at the EGM.

A circular containing, among others, (i) further details of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps), the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition Agreement and the Heat Procurement Framework Agreement (together with the proposed annual caps); (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition Agreement and the Heat Procurement Framework Agreement (together with the proposed annual caps); (iv) financial information and other information of the Group; (v) financial information and other information of Yatai Heating; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the valuation report on the Equity Interests; and (viii) further information required to be disclosed under the Listing Rules, is expected to be despatched to the Shareholders on or before 25 November 2020 to allow sufficient time to finalise the contents of the circular.

The Independent Board Committee has been established to advise the Independent Shareholders as to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

The Independent Financial Adviser, Giraffe Capital Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

Shareholders who have a material interest are required to abstain from voting in respect of the resolutions in respect of the Acquisition Agreement and the Heat Procurement Framework Agreement at the EGM. As at the date of this announcement, the Vendor holds 325,500,000 Domestic Shares, representing approximately 69.75% of the total share capital of the Company. The Vendor and its associates will abstain from voting on the resolutions to be proposed at the EGM in respect of the Acquisition Agreement and the Heat Procurement Framework Agreement.

As completion of the Acquisition is conditional upon fulfilment of the conditions precedent set out in this announcement, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

(1) PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN YATAI HEATING

The Board is pleased to announce that on 29 October 2020 (after trading hours), the Vendor and the Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the Equity Interests in Yatai Heating for a consideration of RMB318,376,300 (equivalent to approximately HK\$366.89 million) in accordance with the terms and conditions of the Acquisition Agreement.

(A) Acquisition Agreement

Date: 29 October 2020 (after trading hours)

Parties: (i) Changchun Heating Group, as vendor
(ii) the Company, as purchaser

Subject matter

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase the Equity Interests, representing 100% of the equity interests in Yatai Heating, free from all encumbrances and together with all rights attaching thereto as at the Completion Date.

Consideration

The Consideration for the Equity Interests is RMB318,376,300 (equivalent to approximately HK\$366.89 million), which shall be satisfied by the Company in cash.

The Consideration has been arrived at after arm's length negotiations between the Vendor and the Company with reference to the valuation of the Equity Interests as at 31 May 2020 (being RMB318,376,300 (equivalent to approximately HK\$366.89 million)) set out in the preliminary valuation report appraised in accordance with the requirements of the PRC by a qualified PRC valuer based on income approach. The above valuation was prepared among others, on the basis that the Reorganisation took place on 31 May 2020. The above valuation is subject to the valuation to be filed with Changchun SASAC, which shall be final. The Consideration is intended to be financed partly by the internal resources of the Group and partly by the net proceeds from the Global Offering as to RMB100 million, subject to the approval by the Shareholders at the EGM of the proposed change in the use of proceeds from the Global Offering as described in this announcement.

The original acquisition cost incurred by the Vendor for the acquisition of the entire equity interest of Yatai Heating in December 2019 was approximately RMB423.98 million (equivalent to approximately HK\$488.58 million).

Having considered the factors taken into account by the parties in arriving at the Consideration, the Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who are required under the Listing Rules to abstain from voting at the relevant Board meeting and the independent non-executive Directors whose view will be set out in the circular to be issued by the Company after taking into consideration the advice from the Independent Financial Adviser) are of the view that the Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

The Acquisition Agreement shall take effect upon the satisfaction of the following conditions:

- (i) the Vendor having completed the applicable internal decision-making procedure in respect of the Acquisition Agreement and the transactions contemplated thereunder in accordance with the requirements of its articles of association;
- (ii) the Acquisition Agreement and the transactions contemplated thereunder having been approved by the board of directors of the Company and the Shareholders at general meeting of the Company in accordance the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and
- (iii) (where applicable) as regards the entering into and performance of the Acquisition Agreement, each of the Vendor 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

Within 15 days from the date of signing of the Acquisition Agreement (or such later date as the parties to the Acquisition Agreement may agree in writing), the Vendor shall, and/or shall procure Yatai Heating to, complete the government approval and filing procedures, registration procedure with the relevant industry and commerce administration authority and other necessary legal procedures relating to the transfer of the Equity Interests.

Within 40 business days after the Completion Date, the Company shall complete the payment of the Consideration in full to the Vendor in cash.

As from the Completion Date, Yatai Heating will become a wholly owned subsidiary of the Company.

Termination

The Acquisition Agreement shall terminate upon occurrence of any of the following:

- (i) the conditions set out in the paragraph headed “Conditions precedent” above not having been fulfilled in full on or before 31 December 2020 (or such later date as the Vendor and the Company may agree in writing);
- (ii) the Acquisition Agreement being terminated in writing by the Vendor and Company upon mutual agreement;
- (iii) the happening of force majeure causing the transfer of the Equity Interests not being able to be effected; and
- (iv) where a party commits a material breach of the Acquisition Agreement and the breach remains outstanding after 30 days of a written notice of the breach served by the non-defaulting party to the defaulting party, the non-defaulting party serving a further written notice on the defaulting party terminating the Acquisition Agreement without prejudice to its rights under the Acquisition Agreement to claim against the defaulting party under such breach.

(B) Reasons for and benefits of entering into the Acquisition Agreement

As at the date of this announcement, the Vendor Group is engaged in certain businesses relating to heat supply and heat services. Through the Acquisition, the business of heat supply and heat services of Yatai Heating (after the Reorganisation) will be incorporated into that of the Group. The Acquisition represents a step of the Vendor Group towards further integration of this part of its business into the Group and will then reduce the potential business competition between the Vendor Group (excluding the Group) and the Group in this business area. At the same time, the coverage of the Group's heat supply will be increased by the districts and areas covered by Yatai Heating, which is conducive to an increase in the Company's revenue and profitability, creating more value for the Shareholders.

Based on the above, the Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who abstained from voting at the relevant Board meeting as required by the Listing Rules and the independent non-executive Directors whose view will be set out in the circular to be issued by the Company after taking into consideration the advice from the Independent Financial Adviser) consider that the terms of the Acquisition Agreement 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.

(C) Information on the Group

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.

(D) Information on the Vendor

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

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

(E) Information on Yatai Heating

Yatai Heating is a limited liability company established in the PRC on 30 October 1998 and as at the date of this announcement is a wholly-owned subsidiary of the Vendor. As at the date of this announcement, the registered capital of Yatai Heating is RMB239 million.

Yatai Heating is principally engaged in the heat services business with heat principally obtained from cogeneration plants and supplemented by district coal-fired boilers. Yatai Heating is a large-scale professional heat services enterprise integrating provision and distribution of heat and pipeline connection. It was recognised as a National High-Tech Enterprise* (國家高新技術企業) in 2019. Currently, Yatai Heating's heat service area is approximately 16,200,000 square metres which covers Chaoyang district, Nanguan district, Erdao district, Luyuan district and automotive industry development zone in Changchun.

(F) Financial information of Yatai Heating

Set out below is a summary of the unaudited financial information of Yatai Heating for the two years ended 31 December 2019 and the five months ended 31 May 2020 (before the Reorganisation):

	For the year ended 31 December 2018 (unaudited) RMB'000 approximately	For the year ended 31 December 2019 (unaudited) RMB'000 approximately	For the five months ended 31 May 2020 (before the Reorganisation) (unaudited) RMB'000 approximately
Revenue	418,908	411,562	240,588
Profit/(Loss) before taxation	(37,661)	(70,698)	66,930
Profit/(Loss) after taxation	(37,379)	(69,781)	57,652
	As at 31 December 2018 (unaudited) RMB'000 approximately	As at 31 December 2019 (unaudited) RMB'000 approximately	As at 31 May 2020 (before the Reorganisation) (unaudited) RMB'000 approximately
Net assets	132,725	62,944	120,236

(G) Listing Rules implications

As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements thereunder.

Given that the Vendor 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 Acquisition Agreement, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25%, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

(A) Introduction

Upon the transfer of certain coal-fired boilers to Changchun Heating Group as part of the Reorganisation, Yatai Heating will begin to procure from Changchun Heating Group heat produced by these coal-fired boilers to continue the supply of heat to its existing customers in its ordinary and usual course of business. For this purpose, Yatai Heating has entered into the Heat Procurement Framework Agreement with Changchun Heating Group, pursuant to which Yatai Heating has agreed to procure heat from Changchun Heating Group for an effective period of three years commencing on 1 January 2021 and ending on 31 December 2023.

According to its terms, the Heat Procurement Framework Agreement will come into effect subject to compliance with the relevant requirements of the Listing Rules and Completion.

(B) Principal terms and pricing policy

The principal terms and pricing policy under the Heat Procurement Framework Agreement are as follows:

- (i) Changchun Heating Group shall be responsible to supply heat to Yatai Heating in accordance with the terms of the Heat Procurement Framework Agreement;
- (ii) Yatai Heating shall compile, and provide to Changchun Heating Group, annual heat procurement plan for each year within the term of the Heat Procurement Framework Agreement;

- (iii) Changchun Heating Group and Yatai Heating shall enter into separate contracts in respect of service term, rate of heat service fee and time and method of payment and calculation; and
- (iv) the parties agree the intended unit price per GJ to be RMB56, and that the actual heat service fee payable by Yatai Heating to Changchun Heating Group shall be determined through fair negotiation between the parties as to be set out in the relevant separate contracts and on terms no less favourable than those offered to Yatai Heating by Independent Third Parties. The parties shall make references to the relevant historical prices for heat procurement and collect industry information on market price and profitability from various sources, such as state-prescribed price, state-recommended price and other similar heat service providers, and determine the rate of the service fee based on average market profit rate or on cost-plus basis in order to ensure the fairness and reasonableness of the rate.

The above terms were agreed by the parties on arm's length negotiation.

(C) Historical transaction amounts

As the subject coal-fired boilers were owned by Yatai Heating and included in its financial statements before the Reorganisation and these coal-fired boilers formed part of the heat production facilities of Yatai Heating before the Reorganisation, no such or other comparable heat procurement cost was recorded for the three years ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2020.

(D) Annual caps and basis

The maximum amount of heat service fee payable by Yatai Heating to Changchun Heating Group in respect of the transactions contemplated under the Heat Procurement Framework Agreement shall not exceed RMB83.80 million, RMB77.91 million and RMB77.91 million for each of the three years ending 31 December 2023, respectively.

In arriving at the annual caps, the Directors considered factors including the expected supply of heat generated from the subject coal-fired boilers to the customers of Yatai Heating for each of the three years ending 31 December 2023, the future decrease in heat service area served by the subject coal-fired boilers that is expected to arise from the expected connection of such decreased heat service area to the network of cogeneration plants and the intended unit price per GJ of RMB56.

At the beginning of each heat supply period, Yatai Heating will estimate the total heat service fee to be paid to Changchun Heating Group under the Heat Procurement Framework Agreement for that period based mainly on the historical amount of heat produced by the subject coal-fired boilers and the intended unit price per GJ of RMB56, taking into account any expected change in the amount of heat required from the subject coal-fired boilers. For each heat supply period, Changchun Heating Group and the Group will enter into a heat procurement contract. The heat service fee is calculated and settled on a monthly basis. Personnel of the Group will from time to time enter the premises of Changchun Heating Group where the subject coal-fired boilers are housed to inspect the data relating to the amount of heat supplied to Yatai Heating as shown in the measuring equipment installed in the premises. The data will be reported to the planning and management department of the Group, which is responsible for ensuring the relevant annual cap is not exceeded.

In addition, the Group will adhere to the following internal control measures in respect of the transactions contemplated under the Heat Procurement Framework Agreement: (i) the designated staff from the planning and management department of the Group will closely monitor the total transaction amount to ensure that the proposed annual caps in respect of the transactions contemplated under the Heat Procurement Framework Agreement will not be exceeded; (ii) reports containing total transaction amount under Heat Procurement Framework Agreement will be submitted to the management of the Company on a quarterly basis; and (iii) the independent non-executive Directors and the auditors of the Company will conduct annual review of the transactions contemplated under the Heat Procurement Framework Agreement.

(E) Directors' view

The coal-fired boilers which will produce heat to be supplied to Yatai Heating pursuant to the Heat Procurement Framework Agreement are stationed in specific locations in Changchun. These coal-fired boilers formed part of the heat production facilities of Yatai Heating before the Reorganisation. The procurement of heat produced by these coal-fired boilers under the Heat Procurement Framework Agreement will allow Yatai Heating to continue to supply heat to its customers in the same manner as it did before the implementation of the Reorganisation without any need of reconstruction or alteration to its relevant heat supply network, which would otherwise attract time and costs to Yatai Heating for it to be able to resume the supply of heat through the relevant heat supply network.

The Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who abstained from voting at the relevant Board meeting as required by the Listing Rules and the independent non-executive Directors whose view will be set out in the circular to be issued by the Company after taking into consideration the advice from the Independent Financial Adviser) are of the view that (i) continuing connected transactions to be constituted by the procurement of heat as contemplated under the Heat Procurement Framework Agreement will be entered into in the ordinary and usual course of business of the Enlarged Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of the Enlarged Group and the Shareholders as a whole; and (ii) the proposed annual caps in respect of the transactions contemplated under the Heat Procurement Framework Agreement described above are fair and reasonable and in the interests of the Enlarged Group and the Shareholders as a whole.

(F) Listing Rules implications

Given that Changchun Heating Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company and thus a connected person of the Company, the transactions contemplated under the Heat Procurement Framework Agreement will, as from Completion, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Heat Procurement Framework Agreement exceed 5% and each of the annual caps exceeds HK\$10,000,000 (equivalent to approximately RMB8,677,800), the transactions contemplated under the Heat Procurement Framework Agreement are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

(3) PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

(A) Background

Reference is made to (i) the Prospectus; (ii) the 2019 Annual Report; and (iii) the 2020 Interim Report in relation to, among others, the utilization of the Net Proceeds, which amounts to approximately HK\$220.5 million.

(B) Use of proceeds

As disclosed in the section headed "Future plans and use of proceeds" in the Prospectus and adjusted based on the offer price of HK\$2.35 per H Share issued pursuant to the Global Offering, the Company intended to use the Net Proceeds as follows:

- approximately HK\$90.4 million (equivalent to approximately RMB81.8 million), representing approximately 41.0% of the Net Proceeds, will be used for further increasing the level of automation in the Group's heat supply business in the three years following the Listing by enhancing the Group's smart heating network system to achieve a more stable, efficient and technologically advanced heat supply.
- approximately HK\$90.4 million (equivalent to approximately RMB81.8 million), representing approximately 41.0% of the Net Proceeds, will be used for upgrading and replacement of existing primary distribution pipelines and heat supply facilities in the three years following the Listing to enhance operational efficiency of the Group's heat distribution network.

- approximately HK\$28.7 million (equivalent to approximately RMB25.9 million), representing approximately 13.0% of the Net Proceeds, will be used in the Group's heat service area expansion to grow its heat supply business in the three years following the Listing, including necessary construction of primary distribution pipelines and heat supply facilities required thereunder.
- approximately HK\$11.0 million (equivalent to approximately RMB10.0 million), representing approximately 5.0% of the Net Proceeds, will be used for potential acquisitions of heat service companies in the three years following the Listing to complement the Group's existing heat supply operations.

As at the date of this announcement, the Group has utilized approximately RMB31.6 million, representing approximately 15.8% of the Net Proceeds as follows:

Use of Net Proceeds	Planned use of Net Proceeds <i>RMB million</i>	Amount utilized up to the date of this announcement <i>RMB million</i>	Unused amount up to the date of this announcement <i>RMB million</i>
Upgrade the smart heating network	81.8	–	81.8
Replace pipelines and facilities	81.8	–	81.8
Expand service area	25.9	21.6	4.3
Acquisitions	10.0	10.0	–
	<u>199.5</u>	<u>31.6</u>	<u>167.9</u>

(C) Change in use of proceeds

As at the date of this announcement, the unused Net Proceeds amount to approximately RMB167.9 million (the “**Unused Net Proceeds**”). The Directors, having considered the recent business environment and development of the Group (in particular the impact of the outbreak of the novel coronavirus pandemic (COVID-19) to the business environment in the Jilin Province), propose to change the use of the Unused Net Proceeds. Set out below is the utilization of the Net Proceeds up to the date of this announcement and the proposed change of use of the Unused Net Proceeds:

Use of Net Proceeds	Original planned use of Net Proceeds		Amount utilized up to the date of this announcement	Unused amount up to the date of this announcement	Revised allocation of the Unused Net Proceeds	
	RMB million	% of Net Proceeds	RMB million	RMB million	RMB million	% of Unused Net Proceeds
Upgrade the smart heating network	81.8	41.0	–	81.8	31.8	18.9
Replace pipelines and facilities	81.8	41.0	–	81.8	31.8	18.9
Expand service area	25.9	13.0	21.6	4.3	4.3	2.6
Acquisitions	10.0	5.0	10.0	–	100.0	59.6
	<u>199.5</u>	<u>100.0</u>	<u>31.6</u>	<u>167.9</u>	<u>167.9</u>	<u>100.0</u>

(D) Reasons for and benefits of the proposed change in use of proceeds

As disclosed in the 2019 Annual Report and the 2020 Interim Report, most of the net proceeds earmarked for upgrading the smart heating network was intended to be used for upgrading of the Group’s system, purchasing relevant equipment and sensors and installation of the equipment in the heat exchange stations and end-users’ properties. Enhancement of the Group’s smart heating network system will involve physically entering the communities where the relevant end-users are located. During the COVID period, every community has employed different degrees of lockdown, which affects the progress of enhancement works. At the same time, the availability of foreign technicians and workers required to carry out the originally planned enhancement projects is affected.

The primary distribution pipelines and heat supply facilities of the Group are sourced both from all over the PRC and from overseas. Due to the outbreak of COVID, the supply of the materials and workers necessary to implement the upgrading and replacement of the Group’s existing distribution pipelines and heat supply facilities is significantly slowed down and cannot keep up with the project timelines.

For the above reasons, the Directors propose to reallocate a total of approximately RMB100.0 million originally planned for upgrading the smart heating network and upgrading and replacing of the Group's existing distribution pipelines and heat supply facilities to acquisitions of suitable enterprises to expand the Group's business, which is intended to be used in full for satisfying an equivalent amount of the Consideration.

Having considered the impact of the aforesaid changes, the Directors are of the view that the revised allocation of the Unused Net Proceeds will enable the Group to better utilise the Net Proceeds during the COVID period. Save for the aforesaid changes, there is no other change in the uses of the Net Proceeds. The Directors confirm that there is no material change in the nature of business of the Group as set out in the Prospectus. The Directors consider that the above changes in the uses of the Net Proceeds are fair and reasonable, as they would allow the Group to deploy its financial resources more effectively. The Directors believe that the above changes will not have any material adverse effect on the existing business and operation of the Group and is in the best interests of the Company and the Shareholders as a whole.

As required by Article 61 of the Articles of Association, the proposed change in use of proceeds from the Global Offering is subject to the approval by the Shareholders.

(4) PROPOSED CHANGE IN COMPOSITION OF SUPERVISORY COMMITTEE

Upon the recommendation of Changchun State-owned Capital Investment and Operating Group Co., Ltd.* (長春市國有資本投資運營(集團)有限公司) ("**Changchun SCIO Group**") as a Shareholder and the nomination of the Supervisory Committee, the Company proposes to put forward at the EGM for the Shareholders to consider and, if thought fit, approve the proposed appointment of Ms. Zhang Wei ("**Ms. Zhang**") as a Supervisor (not being an employee representative Supervisor) with effect from the date of the EGM. Ms. Wang Xuejing ("**Ms. Wang**") will cease to be a Supervisor upon the Shareholders approving the proposed appointment of Ms. Zhang as a Supervisor at the EGM.

Ms. Wang has confirmed that she has no disagreement with the Board and the Supervisory Committee, and there is no other matter in respect of her proposed cessation to be a Supervisor that needs to be brought to the attention of the Shareholders.

The Company would like to express its gratitude to Ms. Wang for her contributions to the Company during her tenure of service.

The biographical details of Ms. Zhang are as follows:

Ms. Zhang, aged 40, qualified as an attorney-at-law of the PRC in 2016. Ms. Zhang worked at Golden Reason Law Firm (吉林正基律師事務所) from January 2008 to October 2017 and from September 2016 as a practicing attorney. Since January 2018 has been acting as the general counsel of Changchun SCIO Group. Ms. Zhang obtained her bachelor's degree in law from Northeast Normal University (東北師範大學), the PRC in 2003 and her master's degree in civil law and commercial law from Jilin University (吉林大學), the PRC in 2007.

If the proposed appointment of Ms. Zhang as a Supervisor is approved at the EGM, the term of office of Ms. Zhang will commence from the date of the EGM and will end on the expiry date of the first session of the Supervisory Committee. Ms. Zhang will not be entitled to any emolument for acting as a Supervisor.

Save as disclosed above, Ms. Zhang has confirmed that she does not hold any other positions in the Company or its subsidiaries, has not held any directorship in any listed companies in Hong Kong or overseas in the past three years, and does not have any relationship with any directors, senior management or substantial shareholders or controlling shareholders of the Company. Ms. Zhang does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Save as disclosed above, there is no other information in respect of Ms. Zhang that needs to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there is no other matter in respect of her proposed appointment that needs to be brought to the attention of the Shareholders.

(5) GENERAL

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder and for the Shareholders to consider and, if thought fit, approve, among others, the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee. The Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee will be proposed to be approved by way of ordinary resolutions at the EGM.

A circular containing, among others, (i) further details of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps), the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition Agreement and the Heat Procurement Framework Agreement (together with the proposed annual caps); (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition Agreement and the Heat Procurement Framework Agreement (together with the proposed annual caps); (iv) financial information and other information of the Group; (v) financial information and other information of Yatai Heating; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the valuation report on the Equity Interests; and (viii) further information required to be disclosed under the Listing Rules, is expected to be despatched to the Shareholders on or before 25 November 2020 to allow sufficient time to finalise the contents of the circular.

The Independent Board Committee has been established to advise the Independent Shareholders as to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

The Independent Financial Adviser, Giraffe Capital Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

Shareholders who have a material interest are required to abstain from voting in respect of the resolutions in respect of the Acquisition Agreement and the Heat Procurement Framework Agreement at the EGM. As at the date of this announcement, the Vendor holds 325,500,000 Domestic Shares, representing approximately 69.75% of the total share capital of the Company. The Vendor and its associates will abstain from voting on the resolutions to be proposed at the EGM in respect of the Acquisition Agreement and the Heat Procurement Framework Agreement.

As completion of the Acquisition is conditional upon fulfilment of the conditions precedent set out in this announcement, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

(7) DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set out below:

“2019 Annual Report”	the annual report of the Company for the year ended 31 December 2019
“2020 Interim Report”	the interim report of the Company for the six months ended 30 June 2020
“Acquisition”	the acquisition of the Equity Interests by the Company in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the agreement (股權收購協議) dated 29 October 2020 entered into between the Vendor as vendor and the Company as purchaser in relation to, among others, the transfer of the Equity Interests by the Vendor to the Company
“Articles” or “Articles of Association”	the articles of association adopted by the Company and as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors
“Changchun Heating Group” or “Vendor”	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司), the controlling shareholder of the Company, and a state-owned company established in the PRC on 28 April 1998 which holds 69.75% of the total share capital of the Company as at the date of this announcement
“Changchun SASAC”	the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會)
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

“Company”	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司), presently a joint stock company with limited liability which was incorporated in the PRC on 23 October 2017 and the H Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
“Completion Date”	the date of completion of the registration and/or filing procedure with the relevant industry and commerce administration authority relating to the change of the holder of the Equity Interests from the Vendor to the Company
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	RMB318,376,300 (equivalent to approximately HK\$366.89 million)
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic Share(s), which are subscribed for in RMB and held by PRC nationals or PRC incorporated entities, and are not listed or traded on any stock exchange
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, the proposed change in use of proceeds from the Global Offering as described in this announcement and the Proposed Change in Composition of Supervisory Committee
“Equity Interests”	100% equity interests in Yatai Heating
“Enlarged Group”	the Group as enlarged by Yatai Heating upon Completion

“GJ”	Gigajoule, a unit used to measure the amount of heat
“Global Offering”	has the meaning as defined in the Prospectus
“Group”	the Company and its subsidiaries from time to time
“H Share(s)”	overseas listed foreign Share(s), which are subscribed for and traded in HK\$ and listed on the Main Board of the Stock Exchange
“H Shareholder(s)”	holder(s) of H Share(s)
“Heat Procurement Framework Agreement”	the heat procurement framework agreement dated 29 October 2020 and entered into between Yatai Heating and Changchun Heating Group in relation to the procurement of heat by Yatai Heating from Changchun Heating Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wang Yuguo, Mr. Fu Yachen and Mr. Poon Pok Man, and formed to advise the Independent Shareholders in relation to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions thereunder
“Independent Financial Adviser”	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder

“Independent Shareholders”	Shareholders who are not required under the Listing Rules to abstain from voting on the resolution(s) for approving, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder at the EGM
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Listing”	the listing of the H Shares of the Company on the Main Board of the Stock Exchange on 24 October 2019
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Net Proceeds”	the net proceeds from the Global Offering
“Proposed Change in Composition of Supervisory Committee”	the proposed change in composition of the Supervisory Committee as described in the section headed “(4) Proposed Change in Composition of Supervisory Committee” in this announcement
“Prospectus”	the prospectus of the Company dated 27 September 2019 and issued in relation to the Listing
“Reorganisation”	a reorganisation involving the transfer of certain assets comprising land use rights, buildings, coal-fired boilers and ancillary equipment (together with related rights and liabilities and personnel) from Yatai Heating to Changchun Heating Group at nil consideration pursuant to an agreement (無償劃轉協議) dated 30 July 2020 entered into between Yatai Heating as transferor and Changchun Heating Group as transferee
“RMB”	renminbi yuan, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the capital of the Company with nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	supervisor(s) of the Company

“Supervisory Committee”	the supervisory committee of the Company
“Vendor Group”	the Vendor and its subsidiaries (excluding the Group) from time to time, which shall exclude Yatai Heating as from Completion
“Yatai Heating”	Changchun Yatai Heating Company Limited* (長春亞泰熱力有限責任公司), a limited liability company established in the PRC on 30 October 1998 and a wholly-owned subsidiary of the Vendor as at the date of this announcement
“%”	per cent.

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

Jilin, the PRC, 29 October 2020

In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ and vice versa at the rate of RMB0.86778 to HK\$1.00. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

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

* For identification purpose only