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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)**

### **CONTINUING CONNECTED TRANSACTIONS**

#### **PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

On 29 March 2021, the Group has entered into the following partially-exempt connected transactions with the Controlling Shareholder Group:

1. the 2021-2023 Pipes Supply Framework Agreement between the Company (for itself and on behalf of its subsidiaries) and New Model Pipes for a term from 1 January 2021 to 31 December 2023, whereby New Model Pipes shall supply pipes for heating supply to the Group in accordance with the requirements prescribed by the Group;
2. the 2021-2023 Heat Supply Framework Agreement between the Company (for itself and on behalf of its subsidiaries) and Datang JV for a term from 29 March 2021 to 31 December 2023, whereby Datang JV shall supply heat to the Group in accordance with the requirements prescribed by the Group; and
3. the 2021-2023 Biomass Fuel Supply Framework Agreement between the Company (for itself and on behalf of its subsidiaries) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group) for a term from 1 January 2021 to 31 December 2023, whereby the Group shall supply biomass fuel for heat generation to the Controlling Shareholder Group in accordance with the requirements prescribed by the Controlling Shareholder Group and the Group's regulations.

#### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

On 29 March 2021, the Company (for itself and on behalf of its subsidiaries) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group) entered into the 2021-2023 Construction Framework Agreement for a term from 1 January 2021 to 31 December 2023, whereby the Group shall provide construction, maintenance and design services to the Controlling Shareholder Group in accordance with the requirements prescribed by the Controlling Shareholder Group and the Group's regulations.

## **LISTING RULES IMPLICATIONS**

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. Each of New Model Pipes and Datang JV is an associate of Changchun Heating Group and hence is a connected person of the Company. As such, each of the Continuing Connected Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

### **The Partially-exempt Continuing Connected Transactions**

As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules for each of the Partially-exempt Continuing Connected Transactions are, on an annual basis, over 0.1% but all of them are less than 5%, each of the Partially-exempt Continuing Connected Transactions are subject to the reporting, announcement and annual review requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **The Non-exempt Continuing Connected Transactions**

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Non-exempt Continuing Connected Transactions are, on an annual basis, over 5%, the Non-exempt Continuing Connected Transactions are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

The Independent Board Committee has been established to advise the Independent Shareholders as to the 2021-2023 Construction 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 2021-2023 Construction Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

A circular of the Company containing, among other things, (i) details of the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder; and (iii) the recommendation of the Independent Board Committee regarding the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder to the Independent Shareholders, is expected to be despatched to the Shareholders on or before 27 April 2021 to allow sufficient time to finalise the contents of the circular.

## **I. PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

### **A. The 2021-2023 Pipes Supply Framework Agreement**

#### **1. Principal Terms**

Date:	29 March 2021
Parties:	(a) The Company (for itself and on behalf of its subsidiaries)  (b) New Model Pipes
Subject matter:	New Model Pipes shall supply pipes for heating supply to the Group in accordance with the requirements prescribed by the Group.  New Model Pipes will enter into separate contracts with the Group in respect of the Group's orders for pipes.
Term:	1 January 2021 to 31 December 2023
Pricing terms and pricing policy:	The price charged by New Model Pipes in respect of pipes ordered will be determined with reference to the state-prescribed price. Where there is no state-prescribed price, reference will be made to the relevant state-recommended price. Where there is no state-prescribed price and state-recommended price, reference will be made to the regional market price of the same or comparable types of products that are offered to the Group by independent suppliers under normal commercial terms in the ordinary course of business and such price shall be no less favourable to the Group than that offered by independent suppliers to the Group.  For contracts that are required by relevant national and local laws and regulations or government policy that should be concluded after a tendering process, such contract should only be concluded after a tendering process which complies with relevant national laws and regulations.

Where there is no state-prescribed price and state-recommended price, and the Group is required to make reference to regional market price of same or comparable types of products, the Group has adopted the following management procedures to determine the fairness and reasonableness of the price and terms offered to the Group by New Model Pipes:

*For contracts that require a tendering process:*

- The pricing of the pipes supplied will depend on the outcome of a competitive bidding process. The Group will first review and draft the relevant tender invitation documentation and ensure that the terms and conditions required of the bidders, which are set out according to the Group's requirements and the then market practice, comply with the relevant PRC laws on tenders and the internal compliance manuals of the Company. The Group's management will assess and ensure that all winning bidders comply with the terms and conditions as set out in relevant tender invitation documentation.

*For contracts that do not require a tendering process:*

- The Group will obtain quotations from more than three independent suppliers for similar products in similar quantities to determine if the price offered by New Pipes Model is fair and reasonable.

The 2021-2023 Pipes Supply Framework Agreement shall become effective upon the Company's publication of this announcement. The 2019-2021 Pipes Supply Framework Agreement shall become ineffective upon the 2021-2023 Pipes Supply Framework Agreement becoming effective.

## 2. *Historical transaction amounts and existing annual caps*

The table below sets out the historical transactions amounts and the existing annual caps for the transactions conducted pursuant to the 2019-2021 Pipes Supply Framework Agreement for the years ended 31 December 2019 and 2020:

	<b>Annual cap</b>	<b>Actual amount</b>
<b>Year ended</b>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2019	20,000	17,500
31 December 2020	20,000	19,991

**3. Proposed annual caps**

The table below sets out the proposed annual cap for the transactions contemplated under the 2021-2023 Pipes Supply Framework Agreement for the three years ending 31 December 2023:

<b>For the year ended 31 December</b>		
<b>2021</b>	<b>2022</b>	<b>2023</b>
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30,177	30,177	30,177

**4. Reasons for the proposed annual cap for the transactions contemplated under the 2021-2023 Pipes Supply Framework Agreement**

As disclosed in the Prospectus, the Directors then estimated that the maximum amount in respect of the transactions contemplated under the 2019-2021 Pipes Supply Framework Agreement will not exceed RMB20.0 million for the year ending 31 December 2021. However, the Company expects that the Group's procurement of pipes from New Pipes Model will increase and exceed RMB20.0 million for the year ending 31 December 2021 and beyond because of the following reasons:

- (a) in December 2020, the Company completed the Yatai Heating Acquisition. As a result of this acquisition, the Company expects to procure more pipes from New Pipes Model to cater for Yatai Heating's business operations;
- (b) with the completion of the Xixing Energy Acquisition and Yatai Heating Acquisition in 2020, the Group's heat service area increased by approximately 52% in 2020. The Company expects that more pipes for heating supply would be required as a result of the expanded heat service area; and
- (c) in line with the Group's continued business expansion, the Group expects to enter into new pipeline construction projects which will also drive up the Group's demand for pipes.

In arriving at the annual caps, the Directors considered factors including the historical transaction amounts, the expected construction and installation costs, the expected raw material costs, the Group's expected increase in construction requirements and demand for pipes as discussed above.

Since 1 January 2021 and up to the date of this announcement, the previously approved 2021 annual cap of RMB20.0 million has not been exceeded.

## **B. The 2021-2023 Heat Supply Framework Agreement**

### **1. Principal Terms**

Date:	29 March 2021
Parties:	(a) The Company (for itself and on behalf of its subsidiaries)  (b) Datang JV
Subject matter:	Datang JV shall supply heat to the Group in accordance with the requirements prescribed by the Group.  Datang JV will enter into separate contracts with the Group in respect of the Group's orders for heat.
Term:	29 March 2021 to 31 December 2023
Pricing terms and pricing policy:	The price charged by Datang JV in respect of heat supplied to the Group will be determined with reference to the state-prescribed price. Where there is no state-prescribed price, reference will be made to the relevant state-recommended price. Where there is no state-prescribed price and state-recommended price, reference will be made to the regional market price of the same or comparable types of products that are offered to the Group by independent suppliers under normal commercial terms in the ordinary course of business and such price shall be no less favourable to the Group than that offered by independent suppliers to the Group.  For contracts that are required by relevant national and local laws and regulations or government policy that should be concluded after a tendering process, such contract should only be concluded after a tendering process which complies with relevant national laws and regulations.

Where there is no state-prescribed price and state-recommended price, and the Group is required to make reference to regional market price of same or comparable types of products, the Group has adopted the following management procedures to determine the fairness and reasonableness of the price and terms offered to the Group by Datang JV:

*For contracts that require a tendering process:*

- The pricing of the heat supplied will depend on the outcome of a competitive bidding process. The Group will first review and draft the relevant tender invitation documentation and ensure that the terms and conditions required of the bidders, which are set out according to the Group's requirements and the then market practice, comply with the relevant PRC laws on tenders and the internal compliance manuals of the Company. The Group's management will assess and ensure that all winning bidders comply with the terms and conditions as set out in relevant tender invitation documentation.

*For contracts that do not require a tendering process:*

- The Group will obtain quotations from more than three independent suppliers for similar products in similar quantities to determine if the price offered by Datang JV is fair and reasonable.

2. ***Historical transaction amounts and proposed annual caps***

The Group, via Xixing Energy, has been purchasing heat from Datang JV since October 2019. For the year ended 31 December 2019 and 2020, the amount of heat purchased by the Group from Datang JV amounted to approximately RMB9.7 million and RMB17.4 million, respectively.

The table below sets out the proposed annual cap for the transactions contemplated under the 2021-2023 Heat Supply Framework Agreement for the three years ending 31 December 2023:

<b>For the year ended 31 December</b>		
<b>2021</b>	<b>2022</b>	<b>2023</b>
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30,546	30,546	30,546

3. ***Reasons for the proposed annual cap for the transactions contemplated under the 2021-2023 Heat Supply Framework Agreement***

Since the Group, via Xixing Energy, has only begun to purchase heat from Datang JV since October 2019, the actual purchase of heat by the Group, via Xixing Energy, from Datang JV increased from approximately RMB9.7 million for the year ended 31 December 2019 to approximately RMB17.4 million for the year ended 31 December 2020.

The fluctuations in the historical transaction amount was mainly due to the fluctuations in the unit price per GJ from RMB40/sq.m. for the 2019-2020 heat supply period to RMB42.5/sq.m. for the 2020-2021 heat supply period, where the highest unit price per GJ during the 2020-2021 heat supply period was RMB50.5/sq.m.

In arriving at the annual caps, the Directors considered factors including the expected increase in the unit price per GJ, the highest unit price per GJ during the 2020-2021 heat supply period, the amount of heat to be supplied by Datang JV to the Group and a buffer of approximately 17% to cater for any possible unforeseeable circumstances such as fluctuation relating to the actual unit price and/or heat supply volume to be supplied by Datang JV.

Since 1 January 2021 and up to the date of this announcement, the Group has not purchased any heat from Datang JV.



## C. The 2021-2023 Biomass Fuel Supply Framework Agreement

### 1. *Principal Terms*

Date:	29 March 2021
Parties:	(a) The Company (for itself and on behalf of its subsidiaries)  (b) Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group)
Subject matter:	<p>The Group shall supply biomass fuel (i.e. impurity wood particles) for heat generation to the Controlling Shareholder Group in accordance with the requirements prescribed by the Controlling Shareholder Group and the Group's regulations.</p> <p>The Controlling Shareholder Group will enter into separate contracts with the Group in respect of the Controlling Shareholder Group's orders for biomass fuel.</p>
Term:	1 January 2021 to 31 December 2023
Pricing terms and pricing policy:	<p>The price charged by the Group in respect of the biomass fuel supplied to the Controlling Shareholder Group will be determined with reference to the state-prescribed price. Where there is no state-prescribed price, reference will be made to the relevant state-recommended price. Where there is no state-prescribed price and state-recommended price, reference will be made to the regional market price of the same or comparable types of products that are offered to independent customers by the Group under normal commercial terms in the ordinary course of business and such price shall be no less favourable to the Group than that offered to independent customers by the Group.</p> <p>For contracts that are required by relevant national and local laws and regulations or government policy that should be concluded after a tendering process, such contract should only be concluded after a tendering process which complies with relevant national laws and regulations.</p>

Where there is no state-prescribed price and state-recommended price, and the Group is required to make reference to regional market price of same or comparable types of products, the Group has adopted the following management procedures to determine the fairness and reasonableness of the price and terms offered to the Controlling Shareholder Group:

*For contracts that require a tendering process:*

- The Group will prepare bidding documents and submit such bidding documents to the Controlling Shareholder Group. The Group will make reference to recent fee quotes provided to independent customers to ensure that the product price offered in the bidding documents is not lower than those offered or quoted to independent customers for similar products.

*For contracts that do not require a tendering process:*

- The Group will make reference to recent fee quotes provided to independent customers to ensure that the product price offered to the Controlling Shareholder Group is not lower than those offered or quoted to independent customers for similar products.

## **2. *Historical transaction amounts and proposed annual caps***

The Group, via Hengda New Energy, has been supplying biomass fuel to the Controlling Shareholder Group since the second half of 2020. For the year ended 31 December 2020, the amount of biomass fuel supplied by the Group to the Controlling Shareholder Group amounted to approximately RMB2.0 million.

The table below sets out the proposed annual cap for the transactions contemplated under the 2021-2023 Biomass Fuel Supply Framework Agreement for the three years ending 31 December 2023:

<b>For the year ended 31 December</b>		
<b>2021</b>	<b>2022</b>	<b>2023</b>
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
7,080	7,080	7,080

3. ***Reasons for the proposed annual cap for the transactions contemplated under the 2021-2023 Biomass Fuel Supply Framework Agreement***

Since the Group, via Hengda New Energy, has only begun to supply biomass fuel to the Controlling Shareholder Group since October 2020, the actual sales of biomass fuel by the Group, via Hengda New Energy, to the Controlling Shareholder Group for the year ended 31 December 2020 was only approximately RMB2.0 million. Having taking into consideration the historical transaction amount and the expected demand for biomass fuel from the Controlling Shareholder Group going forward, the Directors expect that the annual sales of biomass fuel by the Group to the Controlling Shareholder Group will not be more than RMB7,080,000 for each of the year ending 31 December 2021, 2022 and 2023.

Since 1 January 2021 and up to the date of this announcement, the transaction amounts under the 2021-2023 Biomass Fuel Supply Framework Agreement has not exceeded HK\$3 million.

## **II. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

### **The 2021-2023 Construction Framework Agreement**

1. ***Principal Terms***

Date:	29 March 2021
Parties:	(a) The Company (for itself and on behalf of its subsidiaries)  (b) Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group)
Subject matter:	<p>The Group shall provide construction, maintenance and design services to the Controlling Shareholder Group in accordance with the requirements prescribed by the Controlling Shareholder Group and the Group's regulations.</p> <p>The services will include engineering construction, engineering maintenance, design services and electrical and instrument maintenance and repair.</p> <p>The Group will enter into separate implementation contracts with the Controlling Shareholder Group in respect of each project.</p>
Term:	1 January 2021 to 31 December 2023

Pricing terms and pricing policy:

The service fees and the price of materials charged by the Group for the services rendered under the 2021-2023 Construction Framework Agreement shall be determined with reference to the state-prescribed price which is promulgated by the Jilin Department of Construction (吉林省建設廳) from time to time. Where there is no state-prescribed price, reference will be made to the relevant state-recommended price. Where there is no state-prescribed price and state-recommended price, reference will be made to the regional market price of the same or comparable types of services and/or materials that are offered to independent customers by the Group under normal commercial terms in the ordinary course of business and such price shall be no less favourable to the Group than that offered to independent customers by the Group.

For contracts that are required by relevant national and local laws and regulations or government policy that should be concluded after a tendering process, such contract should only be concluded after a tendering process which complies with relevant national laws and regulations.

Where there is no state-prescribed price and state-recommended price, and the Group is required to make reference to regional market price of same or comparable types of services and/or materials, the Group has adopted the following management procedures to determine the fairness and reasonableness of the price and terms offered to the Controlling Shareholder Group:

*For contracts that require a tendering process:*

- The Group will prepare bidding documents and submit such bidding documents to the Controlling Shareholder Group. The Group will make reference to recent fee quotes provided to independent customers to ensure that the service fee and materials price offered in the bidding documents is not lower than those offered or quoted to independent customers for similar construction works.

*For contracts that do not require a tendering process:*

- The Group will make reference to recent fee quotes provided to independent customers to ensure that the service fee and materials price offered to the Controlling Shareholder Group is not lower than those offered or quoted to independent customers for similar construction works.

The 2021-2023 Construction Framework Agreement shall become effective upon the Company obtaining the Independent Shareholders' approval on the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder. The 2019-2021 Construction Framework Agreement shall become ineffective upon the 2021-2023 Construction Framework Agreement becoming effective.

## **2. *Historical transaction amounts and existing annual caps***

The table below sets out the historical transactions amounts and the existing annual caps for the transactions conducted pursuant to the 2019-2021 Construction Framework Agreement for the years ended 31 December 2019 and 2020:

	<b>Annual cap</b>	<b>Actual amount</b>
<b>Year ended</b>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2019	38,800	37,500
31 December 2020	30,800	28,011

**3. Proposed annual caps**

The table below sets out the proposed annual cap for the transactions contemplated under the 2021-2023 Construction Framework Agreement for the three years ending 31 December 2023:

<b>For the year ended 31 December</b>		
<b>2021</b>	<b>2022</b>	<b>2023</b>
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
50,863	50,863	50,863

**4. Reasons for the proposed annual cap for the transactions contemplated under the 2021-2023 Construction Framework Agreement**

As disclosed in the Prospectus, the Directors then estimated that the maximum amount in respect of the transactions contemplated under the 2019-2021 Construction Framework Agreement will not exceed RMB21.8 million for the year ending 31 December 2021. However, it is expected that the Controlling Shareholder Group will require more construction, maintenance and design services from the Group and exceed RMB21.8 million for the year ending 31 December 2021 and beyond because of the following reasons:

- (a) previously, the Group mainly provided construction, maintenance and design services to Changchun Heating Group's subsidiaries which are located in Changchun and Tumen. However, it is expected that going forward, Changchun Heating Group's subsidiaries which are located within and outside Jilin Province will require construction, maintenance and design services from the Group including but not limited to providing construction, maintenance and design services for the transformation projects on distribution networks, heat exchange stations, boiler rooms, replacement of pipelines and valves, etc.; and
- (b) the Controlling Shareholder Group requires more maintenance services from the Group in respect of the coal-fired boilers and ancillary equipment which were transferred by Yatai Heating to Changchun Heating Group in 2020.

In arriving at the annual caps, the Directors considered factors including the historical transaction amounts, relevant authorities' pricing guidelines, the expected construction and installation costs, the expected material costs and the expected increase in demand for construction, maintenance and design services from the Controlling Shareholder Group as discussed above.

Since 1 January 2021 and up to the date of this announcement, the previously approved 2021 annual cap of RMB21.8 million has not been exceeded.

### **III. REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS**

#### **A. The 2021-2023 Pipes Supply Framework Agreement**

Pipes is one of the Group's key raw materials for its construction, maintenance and design services. Having considered the price, product quality, timely delivery and after-sales services offered by New Model Pipes to the Group, the Group has been purchasing pipes from New Model Pipes since 2017. It is expected that New Model Pipes will continue to participate in the Group's tendering process where applicable and the Group will continue to purchase pipes from New Model Pipes going forward.

#### **B. The 2021-2023 Heat Supply Framework Agreement**

Prior to the completion of the Xixing Energy Acquisition in 2020, Xixing Energy was accounted for as a joint venture in the Company's consolidated financial statements and the transactions between Datang JV and Xixing Energy do not constitute connected transactions of the Company. With the completion of the Xixing Energy Acquisition, Xixing Energy becomes a wholly-owned subsidiary of the Company and hence the transactions between Datang JV and Xixing Energy constitute connected transactions of the Company.

Given certain members of the Group, such as Xixing Energy, have operations in Datang JV's heat service area, i.e. the automobile development zone in Changchun City, the Directors consider that the convenient proximity of Datang JV enables such members of the Group to procure heat at a cost-efficient manner as compared to other heat supplier.

#### **C. The 2021-2023 Biomass Fuel Supply Framework Agreement**

Hengda New Energy is a company principally engaged in the sale of biomass fuel used in special boilers that are equipped with high efficiency dust removal facilities. Since 2020, the Group, via Hengda New Energy, has participated and succeeded in Changchun Heating Group's tendering process for the supply of biomass fuel. It is expected that the Group will continue to participate in Changchun Heating Group's tendering process where applicable and the Group will continue to supply biomass fuel to the Controlling Shareholder Group going forward.

#### **D. The 2021-2023 Construction Framework Agreement**

The Controlling Shareholder Group requires certain construction services during its course of business. Having considered the Group's competitive strengths in heat supply construction services and the quality of the Group's services (including quality control and assurance services), the Controlling Shareholder Group has been procuring construction, maintenance and design services from the Group since 2018. It is expected that the Group will continue to participate in Changchun Heating Group's tendering process where applicable and the Group will continue to provide construction services to the Controlling Shareholder Group going forward.

The terms of each of the 2021-2023 Pipes Supply Framework Agreement, the 2021-2023 Heat Supply Framework Agreement, the 2021-2023 Biomass Fuel Supply Framework Agreement and the 2021-2023 Construction Framework Agreement were agreed by the relevant parties on arm's length negotiations.

Based on the above, the Directors (excluding Mr. Liu Changchun and Mr. Shi Mingjun who abstained from voting at the relevant Board meeting as required by the Listing Rules) consider (i) the Partially-exempt Continuing Connected Transactions to be in the interests of the Group and the Shareholders as a whole, on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (ii) the terms of the relevant agreements (including the relevant proposed annual caps) governing the Partially-exempt Continuing Connected Transactions to be fair and reasonable.

The Directors (excluding Mr. Liu Changchun 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 (i) the Non-exempt Continuing Connected Transactions to be in the interests of the Group and the Shareholders as a whole, on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (ii) the terms of the agreement (including the relevant proposed annual caps) governing the Non-exempt Continuing Connected Transactions to be fair and reasonable.



#### **IV. INTERNAL CONTROL MEASURES ADOPTED BY THE GROUP**

The Group has adopted the following internal control measures over the Continuing Connected Transactions:

- (a) the designated staff from the planning and management department of the Group will closely monitor the total transaction amount to ensure that the respective proposed annual caps in respect of the Continuing Connected Transactions will not be exceeded;
- (b) reports containing total transaction amount under each of the 2021-2023 Pipes Supply Framework Agreement, the 2021-2023 Heat Supply Framework Agreement, the 2021-2023 Biomass Fuel Supply Framework Agreement and the 2021-2023 Construction Framework Agreement will be submitted to the management of the Company on a quarterly basis;
- (c) the Company's external auditors will review the Continuing Connected Transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded; and
- (d) the independent non-executive Directors will review the Continuing Connected Transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm whether such Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in such relevant agreements.

#### **V. INFORMATION OF THE PARTIES INVOLVED**

##### **The Group**

The Group is a China-based company mainly engaged in heating service business. The Group 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 Group mainly conducts its business in the Chinese domestic market.

Xixing Energy is a wholly-owned subsidiary of the Company and is primarily engaged in the production and supply of heat, supply of hot water, construction of heating pipelines and maintenance of heating facilities.

Hengda New Energy is an indirect wholly-owned subsidiary of the Company and is principally engaged in the sale of biomass fuel used in special boilers that are equipped with high efficiency dust removal facilities.

### **The Controlling Shareholder Group**

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

The Controlling Shareholder 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.

New Model Pipes is a company established in the PRC and is owned by Jilin Province Heating Group Co., Ltd.\* (吉林省熱力集團有限公司) (a wholly-owned subsidiary of Changchun Heating Group) as to 35%, Changchun Yude Pipes Co., Ltd.\* (長春禹德管業有限公司) as to 33%, Jilin Province Xinda Investment Management Co., Ltd.\* (吉林省新達投資管理有限公司) as to 24.5% and Langfang Huayu Tianchuang Energy Equipment Co., Ltd.\* (廊坊華宇天創能源設備有限公司) as to 7.5%. New Model Pipes is an associate of Changchun Heating Group and is principally engaged in pipeline manufacturing.

Datang JV is a company established in the PRC and is owned by Changchun Heating Group and Datang Jilin Power Generation Co., Ltd. (大唐吉林發電有限公司) as to 35% and 65%, respectively. Datang JV is an associate of Changchun Heating Group and is principally engaged in the provision of heat supply, construction, maintenance and distribution services to the automobile development zone in Changchun City.

## **VI. LISTING RULES IMPLICATIONS**

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. Each of New Model Pipes and Datang JV is an associate of Changchun Heating Group and hence is a connected person of the Company. As such, each of the Continuing Connected Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

### **The Partially-exempt Continuing Connected Transactions**

As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules for each of the Partially-exempt Continuing Connected Transactions are, on an annual basis, over 0.1% but all of them are less than 5%, each of the Partially-exempt Continuing Connected Transactions are subject to the reporting, announcement and annual review requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **The Non-exempt Continuing Connected Transactions**

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Non-exempt Continuing Connected Transactions are, on an annual basis, over 5%, the Non-exempt Continuing Connected Transactions are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

## **VII. GENERAL**

The Independent Board Committee has been established to advise the Independent Shareholders as to the 2021-2023 Construction 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 2021-2023 Construction Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

At the AGM, an ordinary resolution, among other things, will be put forward for the Independent Shareholders to consider and, if appropriate, to the 2021-2023 Construction Framework Agreement, 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 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder at the AGM. As at the date of this announcement, Changchun Heating Group holds 325,500,000 Domestic Shares, representing approximately 69.75% of the total share capital of the Company. Changchun Heating Group and its associates will abstain from voting on the resolution to be proposed at the AGM in respect of the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders will be required to abstain from voting on the relevant resolution approving the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder at the AGM.

A circular of the Company containing, among other things, (i) details of the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder; and (iii) the recommendation of the Independent Board Committee regarding the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder to the Independent Shareholders, is expected to be despatched to the Shareholders on or before 27 April 2021 to allow sufficient time to finalise the contents of the circular.

## VIII. DEFINITIONS

In this announcement, unless otherwise defined, terms used herein shall have the following meanings:

“2019-2021 Construction Framework Agreement”	the construction framework agreement dated 17 September 2019 entered into between the Company (for itself and on behalf of its subsidiaries) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group) for a term up to 31 December 2021, whereby the Group agrees to provide construction, maintenance and design services to the Controlling Shareholder Group. For details, please refer to the section headed “Continuing Connected Transactions – Non-exempt Continuing Connected Transactions – 1. Provision of construction, maintenance and design services to our Controlling Shareholder Group under the Construction Framework Agreement” in the Prospectus
“2019-2021 Pipes Supply Framework Agreement”	the pipes supply framework agreement dated 17 September 2019 entered into between the Company (for itself and on behalf of the Group) and New Model Pipes for a term up to 31 December 2021, whereby New Model Pipes agrees to supply pipes for heating supply to the Group. For details, please refer to the section headed “Connected Transactions – Non-exempt Continuing Connected Transactions – 2. Purchase of pipes from New Model Pipes under the Pipes Supply Agreement” in the Prospectus

<p>“2021-2023 Biomass Fuel Supply Framework Agreement”</p>	<p>the biomass fuel supply framework agreement dated 29 March 2021 entered into between the Company (for itself and on behalf of its subsidiaries) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group), whereby the Group agrees to supply biomass fuel to the Controlling Shareholder Group. For details, please refer to the section headed “I. Partially-exempt Continuing Connected Transactions – 3. The 2021-2023 Biomass Fuel Supply Framework Agreement” in this announcement</p>
<p>“2021-2023 Construction Framework Agreement”</p>	<p>the construction framework agreement dated 29 March 2021 entered into between the Company (for itself and on behalf of its subsidiaries) and Changchun Heating Group (for itself and on behalf of its subsidiaries other than the Group), whereby the Group agrees to provide construction, maintenance and design services to the Controlling Shareholder Group. For details, please refer to the section headed “II. Non-exempt Continuing Connected Transactions – The 2021-2023 Construction Framework Agreement” in this announcement</p>
<p>“2021-2023 Heat Supply Framework Agreement”</p>	<p>the heat supply framework agreement dated 29 March 2021 entered into between the Company (for itself and on behalf of its subsidiaries) and Datang JV, whereby Datang JV agrees to supply heat to the Group. For details, please refer to the section headed “I. Partially-exempt Continuing Connected Transactions – 2. The 2021-2023 Heat Supply Framework Agreement” in this announcement</p>
<p>“2021-2023 Pipes Supply Framework Agreement”</p>	<p>the pipes supply framework agreement dated 29 March 2021 entered into between the Company (for itself and on behalf of the Group) and New Model Pipes, whereby New Model Pipes agrees to supply pipes for heating supply to the Group. For details, please refer to the section headed “I. Partially-exempt Continuing Connected Transactions – 1. The 2021-2023 Pipes Supply Framework Agreement” in this announcement</p>

“AGM”	the forthcoming annual general meeting or any adjournment thereof of the Company to be convened on 28 May 2021 to consider and if appropriate, to approve, among other things, the 2021-2023 Construction Framework Agreement, the proposed annual caps and the transactions contemplated thereunder
“Board”	the board of Directors
“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, and a state-owned company established in the PRC on 28 April 1998 which held approximately 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)
“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
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Continuing Connected Transactions”	collectively, the Partially-exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder Group”	Changchun Heating Group and its subsidiaries (other than the Group)

“Datang JV”	Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司), a joint venture company established in the PRC on 23 March 2017 and is owned by Changchun Heating Group and Datang Jilin Power Generation Co., Ltd. (大唐吉林發電有限公司) as to 35% and 65%, respectively. It is an associate of Changchun Heating Group and a connected person of the Company
“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
“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)
“Hengda New Energy”	Jilin Province Hengda New Energy Technology Development Co., Ltd* (吉林省恒達新能源科技發展有限公司), a company established in the PRC on 27 September 2017 and is an indirect wholly-owned subsidiary of the Company
“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 2021-2023 Construction 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 (Cap. 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 2021-2023 Construction Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) who are not required under the Listing Rules to abstain from voting on the resolution(s) for approving, among others, the 2021-2023 Construction Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder at the AGM
“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
“New Model Pipes”	Jilin Province New Model Pipes Co., Ltd* (吉林省新型管業有限責任公司), a company established in the PRC on 27 July 2017 and is owned by Jilin Province Heating Group Co., Ltd.* (吉林省熱力集團有限公司) (a wholly-owned subsidiary of Changchun Heating Group) as to 35%, Changchun Yude Pipes Co., Ltd.* (長春禹德管業有限公司) as to 33%, Jilin Province Xinda Investment Management Co., Ltd.* (吉林省新達投資管理有限公司) as to 24.5% and Langfang Huayu Tianchuang Energy Equipment Co., Ltd.* (廊坊華宇天創能源設備有限公司) as to 7.5%. It is an associate of Changchun Heating Group and a connected person of the Company



“Non-exempt Continuing Connected Transactions”	the transactions contemplated under the 2021-2023 Construction Framework Agreement
“Partially-exempt Continuing Connected Transactions”	collectively, the transactions contemplated under the 2021-2023 Pipes Supply Framework Agreement, the 2021-2023 Heat Supply Framework Agreement and the 2021-2023 Biomass Fuel Supply Framework Agreement
“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
“Prospectus”	the prospectus of the Company dated 27 September 2019 and issued in relation to the Listing
“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
“Xixing Energy”	Jilin Province Xixing Energy Co., Ltd* (吉林省西興能源有限公司) (formerly known as Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司)), a company established in the PRC on 17 October 2008 and is a wholly-owned subsidiary of the Company
“Xixing Energy Acquisition”	the Company’s acquisition of the remaining 50% equity interests in Xixing Energy from Changchun FAWSN Group Co., Ltd.* (長春一汽富晟集團有限公司) as disclosed in the Company’s announcement dated 8 June 2020
“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 is a wholly-owned subsidiary of the Company. Yatai Heating is principally engaged in the heat services business

“Yatai Heating Acquisition” the Company’s acquisition of 100% equity interests in Yatai Heating from Changchun Heating Group as disclosed in the Company’s circular dated 25 November 2020

“%” per cent.

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

Jilin, the PRC, 29 March 2021

*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*