

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 ENTRUSTED MANAGEMENT FRAMEWORK AGREEMENT

On 18 November 2021, the Company entered into the Entrusted Management Framework Agreement with Changchun Heating Group pursuant to which Changchun Heating Group agrees to entrust the Company with the right to operate and manage the heat supply business of the Entrusted Companies during the Entrusted Management Period.

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. As such, the transactions contemplated under the Entrusted Management Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the transactions contemplated under the Entrusted Management Framework Agreement are, on an annual basis, over 0.1% but all of them are less than 5%, the Entrusted Management Framework Agreement is 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.

I. THE ENTRUSTED MANAGEMENT FRAMEWORK AGREEMENT

Date:

18 November 2021

Parties:

- (1) Changchun Heating Group; and
- (2) The Company

Term:

From 18 November 2021 to 31 December 2023 (both days inclusive) (the “**Entrusted Management Period**”)

Scope of Entrusted Management Services:

Pursuant to the Entrusted Management Framework Agreement, Changchun Heating Group agrees to entrust the Company with the right to operate and manage the heat supply business of the Entrusted Companies during the Entrusted Management Period whereby the Company shall provide management services in relation to the heat supply business of such Entrusted Companies covering procurement, production, sales, finance, business operations, human resources management and other business decisions, etc.

For the avoidance of doubt, the Company shall not be liable for the profit or loss or any debts of the Entrusted Company. All profits or losses of the Entrusted Companies shall be enjoyed or borne by the Entrusted Companies and the Company shall not be entitled to any profits of the Entrusted Companies.

Each Entrusted Company may, pursuant to the principles of the Entrusted Management Framework Agreement, enter into specific agreements with the Company or its subsidiaries in respect of the management of such Entrusted Company.

Entrusted Management Fee:

The entrusted management fee payable by Changchun Heating Group to the Company under the Entrusted Management Framework Agreement shall be based on the actual cost incurred by the Company for the provision of the entrusted management services with a 10% mark-up. The parties agree that the entrusted management fee payable by Changchun Heating Group to the Company shall not exceed RMB741,000, RMB4,667,000 and RMB4,900,000 for the year ending 31 December 2021, 2022 and 2023, respectively. The entrusted management fee for each calendar year is payable by the Controlling Shareholder Group to the Company in one lump sum on or before 31 December of such calendar year.

The entrusted management fee is determined on a cost-plus basis with a 10% mark-up after arm’s length negotiations between the parties and on terms no more favourable than those provided by the Company to the Independent Third Parties.

II. HISTORICAL TRANSACTION AMOUNTS AND PROPOSED ANNUAL CAPS

As it is the first time for the Company to provide entrusted management services to the Controlling Shareholder Group, there is no historical transaction amounts for reference.

The table below sets out the Proposed Annual Caps in respect of the transactions contemplated under the Entrusted Management Framework Agreement for the three years ending 31 December 2023:

	Proposed Annual Caps		
	for the year ending 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed Annual Caps	741 ^(Note)	4,667	4,900

Note: The proposed annual cap for the year ending 31 December 2021 is comparatively lower than that for the years ending 31 December 2022 and 2023 as the Entrusted Management Framework Agreement only commences on 18 November 2021.

In arriving at the Proposed Annual Caps, the Directors considered factors including (1) the estimated cost of the Company to provide the entrusted management services, including the salaries of relevant management staff and related expenses; (2) a 10% mark-up; and (3) a 5% yearly increment to cater for future increases in the cost of entrusted management services such as salary increases.

III. REASONS FOR AND BENEFITS OF ENTERING INTO ENTRUSTED MANAGEMENT FRAMEWORK AGREEMENT

As disclosed in the Prospectus, due to historical reasons, many state-owned enterprises in the PRC also engage in heat supply (including gas supply), water supply, electricity supply and property management services (i.e. Three Supplies and Property Management) as side businesses, which may lead to lower efficiency. As such, the Ministry of Finance of the PRC (中華人民共和國財政部) and the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) implemented the Three Supplies and Property Management Policy to segregate Three Supplies and Property Management Operations from these state-owned enterprises to enterprises which are specialized to provide such services, so that such state-owned enterprises could concentrate on its principal businesses.

Pursuant to the Three Supplies and Property Management Policy, Changchun Heating Group began to take part in the Three Supplies and Property Management Operations from certain state-owned enterprises. Since the promulgation of the Three Supplies and Property Management Policy and up to the date of this announcement, Changchun Heating Group has participated in the heat supply operations of the Three Supplies and Property Management Operations formerly operated by certain state-owned enterprises.

All of the assets and heat supply operations operated by Changchun Heating Group are located in the Northeast China, including Jilin Province, Heilongjiang Province and Inner Mongolia.

Going forward, Changchun Heating Group needs to complete government approval procedures before it could acquire the title of any of these assets and/or heat supply operations. As at the date of this announcement, the aforementioned government approval procedures are yet to be completed. In view of the Proposed A Share Listing and the requirements of the Shenzhen Stock Exchange, as an interim measure, the Company intends to enter into the Entrusted Management Framework Agreement as an additional safeguard to minimize any potential competition between the Group and the Controlling Shareholder Group during the interim period before the completion of the transfer of such assets to the Entrusted Companies. Moreover, Changchun Heating Group agrees to transfer such assets to the Company as and when it has acquired the title of such assets. On the other hand, it is the intention that the Group will exercise its right under the Non-competition Agreement to acquire the businesses of the Entrusted Companies when the transfer of such assets to the Entrusted Companies is completed. Separate transfer agreement(s) will be entered into between Changchun Heating Group and the Company in relation to such transfers as and when appropriate. Upon expiry of the Entrusted Management Period, if the assets are yet to be acquired by the Company, it is expected that Changchun Heating Group and the Company will enter into a new entrusted management framework agreement, subject to compliance with the respective internal approval procedures of Changchun Heating Group and the Company and the requirements of applicable laws, regulations and the Listing Rules.

The terms of the Entrusted Management Framework Agreement were agreed by the relevant parties on arm's length negotiation.

Pursuant to the Listing Rules and the Articles of Association, Mr. Liu Changchun is considered having direct or indirect material interest in the Entrusted Management Framework Agreement by virtue of Mr. Liu Changchun being a director, general manager and chairman of the board of Changchun Heating Group. Accordingly, Mr. Liu Changchun has abstained from voting at the relevant Board meeting. Save as disclosed above, none of the Directors attending the Board meeting has a material interest in or is required to abstain from voting on the Entrusted Management Framework Agreement (together with the Proposed Annual Caps) and the transactions contemplated thereunder.

Based on the above, the Directors (excluding Mr. Liu Changchun who abstained from voting at the relevant Board meeting as required by the Listing Rules) consider (i) the transactions contemplated under the Entrusted Management Framework Agreement 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 Entrusted Management Framework Agreement (including the Proposed Annual Caps) governing the entrusted services provided by the Group to the Controlling Shareholder Group to be fair and reasonable.

IV. INTERNAL CONTROL MEASURES ADOPTED BY THE GROUP

The Group has adopted the following internal control measures over the transactions contemplated under the Entrusted Management Framework Agreement:

- (a) the Company has adopted the Connected Transactions Management Regulations (《關連交易管理規定》) which provides that all connected transactions (including the transactions contemplated under the Entrusted Management Framework Agreement) shall comply with the relevant Listing Rules' requirements and the Connected Transactions Management Regulations, including but not limited to (i) the transactions must be conducted on normal commercial terms or better and the terms are no less favourable to the Group than terms available to Independent Third Parties by the Group or terms offered by Independent Third Parties to the Group (as appropriate); (ii) the transactions are carried out in accordance with the Company's pricing policies and the terms of the Entrusted Management Framework Agreement;
- (b) the Company's planning and management department will closely monitor the total transaction amount to ensure that the Proposed Annual Caps in respect of the transactions contemplated under the Entrusted Management Framework Agreement will not be exceeded;
- (c) the Company's planning and management department shall prepare reports containing total transaction amount under the Entrusted Management Framework Agreement on a monthly basis and submit such reports to the Company's internal control audit department on a quarterly basis;
- (d) based on the reports prepared by the Company's planning and management department, the Company's internal control audit department shall conduct quarterly reviews on the Company's subsidiaries to ensure that (i) the subsidiaries have complied with the Company's Connected Transactions Management Regulations; (ii) the transactions contemplated under the Entrusted Management Framework Agreement are conducted on normal commercial terms or better and the terms are no less favourable to the Group

terms available to Independent Third Parties by the Group or terms offered by Independent Third Parties to the Group (as appropriate); and (iii) the transactions are carried out in accordance with the Company's pricing policies and the terms of the Entrusted Management Framework Agreement. The Company's internal control audit department shall report on its findings relating to the transactions contemplated under the Entrusted Management Framework Agreement to the Company's management on a quarterly basis;

- (e) the Company's external auditors will review the transactions contemplated under the Entrusted Management Framework Agreement annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded; and
- (f) the independent non-executive Directors will review the transactions contemplated under the Entrusted Management Framework Agreement annually to check and confirm whether such 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 the Entrusted Management Framework Agreement.

V. INFORMATION OF THE PARTIES INVOLVED AND THE ENTRUSTED COMPANIES

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.

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.

The Entrusted Companies

As at the date of this announcement, the Entrusted Companies comprise 12 companies established in the PRC and directly or indirectly wholly-owned by Changchun Heating Group which are engaging in the heat supply business in Jilin Province and Inner Mongolia, the PRC. In addition, any other company(ies) established or acquired by Changchun Heating Group in the future which is/are engaging in the heat supply business will also be regarded as an Entrusted Company pursuant to the terms of the Entrusted Management Framework Agreement.

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. As such, the transactions contemplated under the Entrusted Management Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the transactions contemplated under the Entrusted Management Framework Agreement are, on an annual basis, over 0.1% but all of them are less than 5%, the Entrusted Management Framework Agreement is 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.

VII. DEFINITIONS

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

“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 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
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder Group”	Changchun Heating Group and its subsidiaries (other than members of the Group)
“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
“Entrusted Companies”	the 12 companies established in the PRC and directly or indirectly wholly-owned by Changchun Heating Group which are engaging in the heat supply business in Jilin Province and Inner Mongolia, the PRC as at the date of this announcement and any other company(ies) established or acquired by Changchun Heating Group in the future which is/are engaging in the heat supply business

“Entrusted Management Framework Agreement”	the entrusted management framework agreement dated 18 November 2021 and entered into between the Company and Changchun Heating Group, whereby Changchun Heating Group agrees to entrust the Company with the right to operate and manage the heat supply business of the Entrusted Companies. For details, please refer to the section headed “I. The Entrusted Management Framework Agreement” in this announcement
“Entrusted Management Period”	18 November 2021 to 31 December 2023 (both days inclusive)
“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)
“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 Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-competition Agreement”	the agreement of non-competition entered into between Changchun Heating Group and the Company dated 17 September 2019 in respect of certain non-competition undertakings given by Changchun Heating Group in favour of the Group
“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

“Proposed A Share Listing”	the Company’s plan of the listing of, and the trading in RMB in, Shares on the Shenzhen Stock Exchange
“Proposed Annual Caps”	the proposed annual caps for the transactions contemplated under the Entrusted Management Framework Agreement as described in the section headed “II. Historical Transaction Amounts and Proposed Annual Caps” in this announcement
“Prospectus”	the prospectus of the Company dated 27 September 2019 and issued in relation to the listing of the H Shares of the Company on the Main Board of the Stock Exchange on 24 October 2019
“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
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent.

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

Jilin, the PRC, 18 November 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