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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)

CONNECTED TRANSACTION ACQUISITION OF ASSETS

THE PROPOSED ACQUISITION

The Board announces that on 19 March 2024 (after trading hours), Yatai Heating, a wholly-owned subsidiary of the Company, and Chuncheng Investment, a controlling shareholder of the Company, entered into the Assets Transfer Agreement, pursuant to which Yatai Heating has agreed to purchase, and Chuncheng Investment has agreed to sell, the Assets for the Consideration of RMB38,950,960.00 in accordance with the terms and conditions of the Assets Transfer Agreement.

LISTING RULES IMPLICATIONS

Chuncheng Investment 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 certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are over 0.1% but all of them are less than 5%, the Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

I. THE PROPOSED ACQUISITION

The Board announces that on 19 March 2024 (after trading hours), Yatai Heating, a wholly-owned subsidiary of the Company, and Chuncheng Investment, a controlling shareholder of the Company, entered into the Assets Transfer Agreement, pursuant to which Yatai Heating has agreed to purchase, and Chuncheng Investment has agreed to sell, the Assets in accordance with the terms and conditions of the Assets Transfer Agreement.

Set out below are the major terms of the Assets Transfer Agreement:

Date

19 March 2024

Parties

- (i) Yatai Heating, as the purchaser
- (ii) Chuncheng Investment, as the vendor

Assets to be acquired

Pursuant to the Assets Transfer Agreement, Yatai Heating has agreed to purchase, and Chuncheng Investment has agreed to sell, the Assets, subject to the terms and conditions therein.

The Assets comprise certain buildings, coal-fired boilers, land use rights and ancillary equipment currently used by Chuncheng Investment for heat production purposes. According to the information provided by Chuncheng Investment, the book value of the Assets amounted to RMB36,059,627.30 as at 29 February 2024.

The parties to the Assets Transfer Agreement agree that all interests, rights and obligations attached to the Assets shall be transferred from Chuncheng Investment to Yatai Heating with effect from 20 March 2024.

Consideration

The Consideration is RMB38,950,960.00, which shall be satisfied by Yatai Heating in cash within 20 business days from the date of the Assets Transfer Agreement.

The Consideration has been arrived at after arm's length negotiations between Yatai Heating and Chuncheng Investment with reference to the total appraised value of the Assets of RMB38,950,960.00 as at 29 February 2024 (the “**Valuation Date**”) as stated in the assets valuation report prepared by the Valuer, using the cost method. The Group intends to finance the Consideration by its internal resources.

Having considered the factors taken into account by the parties in arriving at the Consideration and the valuation methods and assumptions adopted by the Valuer as disclosed in the section headed “II. Further Information on the Valuation of the Assets by the Valuer” in this announcement, the Directors (excluding Mr. Sun Huiyong who is required under the Listing Rules and the Articles of Association to abstain from voting at the relevant Board meeting) are of the view that the Consideration is fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

II. FURTHER INFORMATION ON THE VALUATION OF THE ASSETS BY THE VALUER

1. Valuation methods

According to the Asset Appraisal Law of the People's Republic of China* (《中華人民共和國資產評估法》), the Basic Standards on Asset Appraisal* (《資產評估基本準則》) and other relevant appraisal standards, the basic valuation methods include market method, income method and cost method.

Given there are limited transaction cases involving the transfer of real estate and equipment which are of similar nature as the Assets and there is no identifiable income stream attributable to the Assets, it is difficult to adopt the market method and income method in appraising the value of the Assets. As such, the cost method is adopted for the valuation of the Assets.

Among the cost method, the replacement cost method is mainly adopted for appraising the value of buildings, coal-fired boilers and ancillary equipment while the residual method is used to appraise the value of land use rights.

2. Valuation of buildings

Due to the unavailability of the final settlement information for the completion of the buildings, the valuation of the buildings is based on the cost indicators of similar buildings with the same purpose, plus the upfront and other fees and loan interest to calculate the full replacement price of the buildings. In addition, the Valuer carried out on-site inspection of the buildings and made references to the buildings' useful lives in determining the depreciation rate for ascertaining the appraised value of the buildings.

3. Valuation of coal-fired boilers and ancillary equipment

The replacement cost for coal-fired boilers and ancillary equipment is arrived at after taking into consideration, the purchase price of such coal-fired boilers or ancillary equipment, transportation cost, installation and commissioning fees, capital costs, etc. The depreciation rate used in arriving at the appraised value is determined with reference to remaining useful life of such coal-fired boilers and ancillary equipment.

4. Valuation of land use rights

According to the Opinions on Land Price Assessment of Allocated State-owned Construction Land Use Rights (Trial)* (《劃撥國有建設用地使用權地價評估指導意見(試行)》), the residual method is derived from the Urban Land Valuation Regulations* (《城鎮土地估價規程》). Under the residual method, the appraised value of the land use right of the allocated land is arrived at by deducting the value-added income of the land from the transfer price of the land use right.

5. Key valuation assumptions

In arriving at the appraised value of the Assets, the Valuer has made the following key assumptions:

- (a) Transactional assumptions: all assets to be appraised are already in the course of transaction and that the Valuer is valuing the assets to be appraised based on a simulated market, such as the transaction conditions of the assets to be appraised.
- (b) Open market assumption: for assets traded on the market, or assets intended to be traded on the market, both parties to the asset transaction have equal status, and both parties have the opportunity and time to obtain sufficient market information in order to make rational decisions on the functions, uses, and transaction prices of the assets.
- (c) Continued usage assumption: it is assumed that the owner of the assets will continue to use the assets in the foreseeable future and will not and need not terminate such usage; and the assets can be liquidated and used to pay off debts in the normal course of business.
- (d) It is assumed that the external economic environment remains unchanged as at the Valuation Date and there are no significant changes in the PRC macro-economy.

- (e) Each asset under the appraisal is based on the actual stock as at the Valuation Date and the current market price of the relevant asset is based on the domestic effective price as at the Valuation Date.
- (f) It is assumed that the appraised assets do not have any defects in title or such title defects have already been fully disclosed and do not involve any legal disputes.
- (g) All information provided to the Valuer is true, accurate and complete.
- (h) There are no other force majeure events or unforeseeable factors which would have a material adverse effect on the appraised assets.

III. FURTHER INFORMATION ON THE COMPANY, YATAI HEATING AND CHUNCHENG INVESTMENT

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.

Yatai Heating is a limited liability company established in the PRC on 30 October 1998 and is a wholly-owned subsidiary of the Company. Yatai Heating is principally engaged in the heat services business which adopts a heating supply method which combines the purchase of heat from cogeneration plants and coal-fired boilers. Yatai Heating is a large-scale professional heat services enterprise integrating provision and distribution of heat and pipeline connection.

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

IV. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

Yatai Heating is a large-scale professional heat services enterprise integrating provision and distribution of heat and pipeline connection. As disclosed in the Company's circular dated 25 November 2020, prior to the Company's acquisition of Yatai Heating on 31 December 2020, Yatai Heating underwent the

Reorganisation whereby, among others, the Assets, were transferred by Yatai Heating to Chuncheng Investment, Yatai Heating's then sole shareholder, at nil consideration. In order to ensure the continuous supply of heat by Yatai Heating to its existing customers in its ordinary and usual course of business, Yatai Heating has been procuring from Chuncheng Investment heat produced by the Assets pursuant to the Framework Agreements. The procurement of heat produced by the Assets under the Framework Agreements allows 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. Please refer to the Company's circulars dated 25 November 2020 and 7 November 2023 for further information.

The Proposed Acquisition enables Yatai Heating to directly own the Assets which produce heat to meet the demand from Yatai Heating's customers. As such, the Group is of the view that the Proposed Acquisition would enable the Group to further enhance its heat production efficiency, optimize the business structure of the Group's heat supply business, increase its capabilities on heat source protection, significantly reduce the extent of continuing connected transactions between the Group and Chuncheng Investment Group as well as minimize any potential competition between the Group and Chuncheng Investment Group, which in turn is beneficial to the Group's overall strategic development.

Based on the above, the Directors (including the independent non-executive Directors but excluding Mr. Sun Huiyong who has abstained from voting at the relevant Board meeting as required by the Listing Rules and the Articles of Association) consider that the terms of the Assets Transfer 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.

V. LISTING RULES IMPLICATIONS

Chuncheng Investment 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 certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are over 0.1% but all of them are less than 5%, the Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules and the Articles of Association, Mr. Sun Huiyong is considered having direct or indirect material interests in the Proposed Acquisition by virtue of Mr. Sun Huiyong being the chairman of Chuncheng Investment. Accordingly, Mr. Sun Huiyong has abstained from voting at the relevant Board meeting to approve the Proposed Acquisition, the Assets Transfer Agreement and the transactions contemplated thereunder.

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 board resolutions in relation to the approval of the Proposed Acquisition, the Assets Transfer Agreement and the transactions contemplated thereunder.

VI. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“2021–2023 Heat Procurement Framework Agreement (Yatai Heating)”	the heat procurement framework agreement dated 29 October 2020 and entered into between Yatai Heating and Chuncheng Investment in relation to the procurement of heat by Yatai Heating from Chuncheng Investment
“2024–2026 Heat Procurement Framework Agreement”	the heat procurement framework agreement dated 11 October 2023 and entered into between the Company (for itself and on behalf of its subsidiaries) and Chuncheng Investment (for itself and on behalf of its subsidiaries other than the Group) in relation to the procurement of heat by the Group from Chuncheng Investment Group
“Articles of Association”	the articles of association of the Company
“Assets”	certain buildings, coal-fired boilers, land use rights and ancillary equipment currently used by Chuncheng Investment for heat production purposes
“Assets Transfer Agreement”	the assets transfer agreement dated 19 March 2024 and entered into between Yatai Heating and Chuncheng Investment in relation to the Proposed Acquisition
“Board”	the board of Directors

“Chuncheng Investment”	Changchun Chuncheng Investment Development Group Company Limited* (長春市春城投資發展集團有限公司), previously known as Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司), a controlling shareholder of the Company
“Chuncheng Investment Group”	Chuncheng Investment and its subsidiaries (other than the Group)
“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
“Consideration”	the consideration payable by Yatai Heating to Chuncheng Investment for the Proposed Acquisition
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Framework Agreements”	collectively, the 2021-2023 Heat Procurement Framework Agreement (Yatai Heating) and the 2024-2026 Heat Procurement Framework Agreement
“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 Hong Kong dollars and listed on the Main Board of the Stock Exchange
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“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 Acquisition”	the proposed acquisition of the Assets by Yatai Heating from Chuncheng Investment pursuant to the terms and conditions of the Assets Transfer Agreement
“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 Chuncheng Investment at nil consideration pursuant to an agreement (無償劃轉協議) dated 30 July 2020 and entered into between Yatai Heating as transferor and Chuncheng Investment 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 the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Valuer”	Zenith Assets & Real Estate Appraisal Co., Ltd. (正衡房地產資產評估(吉林)有限公司), an independent valuer
“Valuation Date”	29 February 2024

“Yatai Heating”

Changchun Yatai Heating Co., Ltd.* (長春亞泰熱力有限責任公司), a wholly-owned subsidiary of the Company

“%”

per cent.

By order of the Board
Jilin Province Chuncheng Heating Company Limited*
Wan Tao
Joint Company Secretary

Jilin, the PRC, 19 March 2024

As at the date of this announcement, the non-executive Director of the Company is Mr. Sun Huiyong (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*