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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in JiaXing Gas Group Co., Ltd.* (嘉興市燃氣集團股份有限公司), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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JiaXing Gas Group Co., Ltd.*
嘉興市燃氣集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 9908)

**(1) REVISION OF ANNUAL CAPS FOR
MASTER SUPPLY AGREEMENTS
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 33 of this circular.

The notice convening the EGM of JiaXing Gas Group Co., Ltd.* (嘉興市燃氣集團股份有限公司) to be held at the meeting room of the Company, 4th Floor, Building 3, Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, the PRC on Thursday, 4 November 2021 at 10:00 a.m. is set out on pages 44 to 46 of this circular.

A form of proxy for use at the EGM is enclosed herewith and also published on both the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.jxrqgs.com>). If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for the EGM (i.e. not later than 10:00 a.m. on Wednesday, 3 November 2021 (Hong Kong time)) or the adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

References to time and dates in this circular are to Hong Kong time and dates.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
1. Introduction	5
2. Revision of Annual Caps	6
3. EGM and Proxy Arrangement	16
4. Closure of H Share Register of Members	17
5. Recommendations	17
6. Additional Information	18
Letter from the Independent Board Committee	19
Letter from the Independent Financial Adviser	21
General Information	34
Notice of Extraordinary General Meeting	44

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chairman”	the chairman of the Board of Directors
“City Development”	Jiaxing City Investment & Development Group Co., Ltd. (嘉興市城市投資發展集團有限公司), a state-owned enterprise established under the laws of the PRC on 21 December 2009, and a substantial Shareholder of the Company
“Company”	JiaXing Gas Group Co., Ltd.* (嘉興市燃氣集團股份有限公司), a joint stock limited liability company incorporated in the PRC whose issued H Shares are listed on the Main Board of the Stock Exchange
“Concessions”	the Jiaxing Urban Area Concession and the Jiaxing Port Area Concession
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic invested ordinary share(s) in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB, and are unlisted Shares which are currently not listed or traded on any stock exchange
“Domestic Shareholder(s)”	holder(s) of the Domestic Share(s)
“EGM”	the extraordinary general meeting of the Company to be held at the meeting room of the Company, 4th Floor, Building 3, Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, the PRC on Thursday, 4 November 2021 at 10:00 a.m., to consider and, if appropriate, to approve the resolution contained in the notice of the meeting which is set out on pages 44 to 46 of this circular, or any adjournment thereof

DEFINITIONS

“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign invested ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of the H Share(s)
“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 independent non-executive Directors, established to advise the Independent Shareholders in respect of the Master Supply Agreements and the Revised Annual Caps
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Supply Agreements and the Revised Annual Caps
“Independent Shareholders”	shareholders other than City Development and their associates
“Jiaxing Pipeline Company”	Jiaxing Natural Gas Pipeline Network Management Co., Ltd.* (嘉興市天然氣管網經營有限公司), formerly known as Jiaxing Natural Gas Pipeline Network Construction Management Co., Ltd.* (嘉興市天然氣管網建設管理有限公司), a limited liability company established under the laws of the PRC on 2 June 2006, a direct wholly-owned subsidiary of City Development
“Jiaxing Port Area”	the area located in Pinghu District, in the southern wing of Shanghai and the northern bank of Hangzhou Bay, with a total area of 54.4 sq.km., representing 1.3% of Jiaxing in terms of geographical coverage

DEFINITIONS

“Jiaxing Port Area Concession”	the concession agreement between Jiaxing Port Area Planning Construction Bureau* (嘉興港區規劃建設局) and us, with effect from 1 May 2008, to act as the exclusive PNG distributor in Jiaxing Port Operating Area for a period of 25 years, subject to renewal approval upon expiration, together with two supplemental agreements dated 8 May 2019 and 23 May 2019, respectively
“Jiaxing Port Operating Area”	the operating area in Jiaxing Port Area where the Group was granted the exclusive right to the operation and management of high, medium and low pressure piped gas, including sales of PNG, liquefied petroleum gas and other gaseous fuels to users by means of pipeline distribution under the Jiaxing Port Area Concession
“Jiaxing Urban Area”	the area comprised of Xiuzhou District and Nanhu District, with a total area of 987 sq.km., representing 23.1% of Jiaxing in terms of geographical coverage
“Jiaxing Urban Area Concession”	the concession agreement between Jiaxing Planning and Construction Bureau* (嘉興市規劃與建設局), subsequently renamed as Jiaxing Urban and Rural Construction Bureau* (嘉興市住房和城鄉建設局), and the Group, with effect from 1 January 2008, to act as the exclusive PNG distributor in Jiaxing Urban Operating Area for a period of 25 years, subject to renewal approval upon expiration, together with the supplemental agreement dated 8 May 2019
“Jiaxing Urban Operating Area”	the operating area in Jiaxing Urban Area where the Group was granted the exclusive right to the operation and management of medium and low pressure piped gas, including sales of PNG and liquefied petroleum gas to users by means of pipeline distribution under the Jiaxing Urban Area Concession
“Latest Practicable Date”	8 October 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time

DEFINITIONS

“Master Supply Agreements”	the two master supply agreements the Group entered into with Jiaxing Pipeline Company on 16 June 2016 for the supply of PNG in the Operating Area as disclosed in the Prospectus
“Operating Area”	the Jiaxing Urban Operating Area and the Jiaxing Port Operating Area
“PNG”	natural gas distributed to end users through pipelines
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus of the Company dated 30 June 2020 in connection with its global offering
“Revised Annual Cap(s)”	the proposed revised annual caps for the five years ending 31 December 2025 for transactions under the Master Supply Agreements
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary share(s) of RMB1.00 each in the capital of the Company, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of Share(s), comprising Domestic Shareholder(s) and H Shareholder(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules

LETTER FROM THE BOARD



JiaXing Gas Group Co., Ltd.* 嘉興市燃氣集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 9908)

Executive Directors:

Mr. Sun Lianqing (Chairman and Chief Executive Officer)

Mr. Xu Songqiang

Non-executive Directors:

Mr. He Yujian

Mr. Zheng Huanli

Mr. Fu Songquan

Mr. Ruan Hongliang

Independent non-executive Directors:

Mr. Yu Youda

Mr. Cheng Hok Kai Frederick

Mr. Zhou Xinfu

*Registered office and headquarter
in the PRC:*

5th Floor, Building 3

Hualong Plaza

Economic and Technological
Development Zone

Jiaxing

Zhejiang Province

PRC

*Principal place of business
in Hong Kong:*

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

15 October 2021

To the Shareholders

Dear Sir or Madam,

REVISION OF ANNUAL CAPS FOR MASTER SUPPLY AGREEMENTS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 30 August 2021 in relation to the Company's proposal to revise the annual caps for the Master Supply Agreements for the five years ending 31 December 2025.

The purposes of this circular are to provide you with (i) information regarding the resolution to be proposed at the EGM relating to, among other matters, details of the Master Supply Agreements and the Revised Annual Caps; (ii) a letter of advice from Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders with regard to the Master Supply Agreements and the

* For identification purpose only

LETTER FROM THE BOARD

Revised Annual Caps; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Master Supply Agreements and the Revised Annual Caps; and (iv) a notice convening the EGM at which ordinary resolution will be proposed to seek the Independent Shareholders' approval for the Revised Annual Caps.

2. REVISION OF ANNUAL CAPS

Reference is made to the sections headed "Business" and "Continuing Connected Transactions" in the Prospectus in relation to the supply of PNG by Jiaxing Pipeline Company to the Group under the Master Supply Agreements.

(a) Major terms of Master Supply Agreements

On 16 June 2016, the Group entered into the Master Supply Agreements with Jiaxing Pipeline Company, pursuant to which the Group has agreed to purchase and Jiaxing Pipeline Company has agreed to sell PNG in the Operating Area. Save for the proposed Revised Annual Caps, the principal terms and conditions of the Master Supply Agreements remain unchanged. Set out below are the major terms of the Master Supply Agreements:

Term:	Up to 31 December 2025. The Group shall negotiate the extension of the term from the penultimate year of the duration of the term.
Specified annual purchase volume:	The Group should submit its PNG annual purchase volume plan with breakdown of monthly purchase volume at least three months before the start of each contract year. Jiaxing Pipeline Company has the right to make reasonable adjustment in the PNG purchase volume plan according to the natural gas resources and market at that time. Jiaxing Pipeline Company and the Group shall agree on the specified annual purchase volume for PNG for the coming contract year by 10 December each year.
Maximum annual purchase volume:	The maximum annual purchase volume is 105% of the specified annual purchase volume for the relevant year (the " Maximum Annual Purchase Volume "). Jiaxing Pipeline Company has no obligation to supply PNG to the Group beyond the Maximum Annual Purchase Volume during the relevant year.

LETTER FROM THE BOARD

Minimum annual purchase volume:	<p>If the actual volume of PNG purchased by the Group during a contract year falls short of the prescribed minimum annual purchase volume (the “Minimum Annual Purchase Volume”), which is 75%, 80% or 90% of the specified annual purchase volume in the first, second, or third to tenth contract year, respectively, minus the aggregate volume of PNG for that year that is (i) not extracted by the Group due to force majeure; (ii) not supplied by Jiaxing Pipeline Company due to Supply Shortfall (as defined below); and (iii) rejected by the Group for failing to meet the quality standard (the “Purchase Shortfall”), the Group has a take-or-pay obligation for the Purchase Shortfall (the “Take-or-pay Obligation”).</p>
Supply of PNG under the Purchase Shortfall:	<p>In case where the Group has made the payment for such Purchase Shortfall in any year to Jiaxing Pipeline Company, the Group has the right to require Jiaxing Pipeline Company to supply the supplemental volume of PNG up to the volume of PNG attributable to such Purchase Shortfall within five years after the year in which the relevant Purchase Shortfall occurs, subject to, among others, the condition that the actual purchase volume and the supplemental volume of PNG supplied by Jiaxing Pipeline Company pursuant to the above mechanism will not exceed the 105% of the specified annual purchase volume for the relevant year. In the event that such Purchase Shortfall is not fully supplied within five years after its occurrence, the Group shall lose the right to claim for the outstanding volume of PNG attributable to such Purchase Shortfall.</p>
Supply Shortfall:	<p>In case where the volume of PNG supplied by Jiaxing Pipeline Company falls short of the specified annual purchase volume for the year (the “Supply Shortfall”), the volume of such Supply Shortfall will be deferred and the Group has the right to require Jiaxing Pipeline Company to supply the deferred volume of PNG up to the volume of PNG attributable to such Supply Shortfall in any year within the five years after the year in which the relevant Supply Shortfall occurs. In the event that such Supply Shortfall is not fully supplied within five years after its occurrence, the parties shall negotiate to extend the validity period of demanding for the supply of PNG in the remaining volume attributable to such Supply Shortfall.</p>

LETTER FROM THE BOARD

- Price:** The purchase price is determined in accordance with the gateway station price set by the Jiaxing Municipal People's Government from time to time with reference to regulatory notices issued by Zhejiang Provincial Development and Reform Commission. Such price adjustment notice may be made by the relevant government authorities from time to time without any fixed schedule. As at the Latest Practicable Date, the gateway station price was RMB2.26/m³ according to the Notice on Adjusting the Price of Natural Gas at Provincial Gateway Stations in Non-heating Seasons Zhejiang Development and Reform Price [2021] No. 114* (關於調整非採暖季天然氣省級門站價格的通知浙發改價格 [2021] 114 號) issued on 15 April 2021 which is effective for the period from 1 April 2021 to 31 October 2021.
- Payment terms:** The Group should make weekly payment, which includes fees for the volume of PNG supplied for the week and prepayment for the expected volume of PNG to be supplied in the following week.
- Termination:** The Master Supply Agreements can be terminated if, among others:
- (i) there is any material breach of the Master Supply Agreements by the other party which cannot be remedied within 30 days' notice of such breach;
 - (ii) Jiaxing Pipeline Company fails to supply PNG for 30 days consecutively or 60 days in a year;
 - (iii) there is any unauthorised transfer or pledge of the contractual rights under the Master Supply Agreements; and
 - (iv) the rights under Concessions are suspended or revoked.
- Exclusivity:** If the Group, without prior written consent of Jiaxing Pipeline Company, acquire natural gas (including liquefied natural gas) from other third party suppliers other than for emergency purpose, Jiaxing Pipeline Company has the right to reduce or suspend the supply of PNG to the Group.

(b) Advantages of the Master Supply Agreements

Due to the highly regulated nature of the natural gas supply industry in the PRC and the long established business relationship between the Group and Jiaxing Pipeline Company which is the sole direct PNG supplier for the PNG supply business of the Group and, to the best knowledge of the Directors, also the only upstream supplier of PNG in Jiaxing, and that the pipeline network of the Group is

LETTER FROM THE BOARD

connected to the pipeline network of Jiaxing Pipeline Company, it is beneficial to the Group to enter into the Master Supply Agreements with Jiaxing Pipeline Company.

The Group has been granted the exclusive right to sell and distribute PNG in the Operating Area pursuant to Concessions for an initial term of 25 years from 1 January 2008 to 31 December 2032 for Jiaxing Urban Operating Area and 25 years from 1 May 2008 to 30 April 2033 for Jiaxing Port Operating Area. Entering into long-term PNG supply agreements with the only upstream supplier of PNG in Jiaxing is in line with the duration of the Concessions and for the stable supply of PNG for the business of the Group.

The Master Supply Agreements states that the prices are determined in accordance with the benchmark gateway price set by the Jiaxing Municipal People's Government. In other words, the Master Supply Agreements could ensure the prices at which the Group purchases PNG from Jiaxing Pipeline Company do not contain additional markups above the benchmark gateway prices on the part of Jiaxing Pipeline Company, which in turn allows the Group to source PNG at more favourable pricing when compared with other PNG traders which may source PNG from Jiaxing Pipeline Company.

(c) Disadvantages of the Master Supply Agreements

Since Jiaxing Pipeline Company is the only direct PNG supplier of the Group, it is a matter of fact that the Group has to depend on Jiaxing Pipeline Company for the availability of the supply of PNG. However, in the event of shortage of supply of PNG from Jiaxing Pipeline Company, the Group could supplement the PNG supply through the gasification of liquefied natural gas the Group purchased from other suppliers. Further, considering that natural gas is a basic necessity, the Directors believe that the PRC government and its controlled corporations generally will not allow natural gas distributors to suspend natural gas supply. The Directors believe that there is no undue reliance on Jiaxing Pipeline Company for PNG supply business of the Group.

The Master Supply Agreements are valid up to 31 December 2025, which have terms longer than the requirement under Rule 14A.52 of the Listing Rules that the period of an agreement for a continuing connected transaction must not exceed three years. The Directors consider that such relatively longer terms are fair and reasonable and in the interest of the Company on the bases that, in addition to the aforementioned advantages of the Master Supply Agreements, a longer term could also ensure a stable supply of PNG to the Group, which in turn could secure the supply of PNG to the end-users of the Group. Pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged the Independent Financial Adviser to explain why the Master Supply Agreements require a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration, details of which are set out in the letter from the Independent Financial Adviser on pages 21 to 33 of this circular.

LETTER FROM THE BOARD

(d) Historical Transaction Amounts, Existing Annual Caps and Proposed Revised Annual Caps

In light of the increase in the PNG sales volume of the Group and the increase in government regulated price for PNG in 2021, it is expected that the transaction amount with Jiaying Pipeline Company under the Master Supply Agreements will exceed the existing annual caps as set out in the Prospectus from the year ending 31 December 2021. The Board proposes to revise the annual caps for the five years ending 31 December 2025.

For the years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021, the historical transaction amounts of the Group under Master Supply Agreements are as follows:

	For the year ended 31 December			For the eight months ended 31 August
	2018	2019	2020	2021
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
	(audited)	(audited)	(audited)	(unaudited)
Historical amounts	832.1	887.0	583.8	718.8

Set out below are the existing annual caps for the Master Supply Agreements as disclosed in the Prospectus:

	For the year ended/ending 31 December					
	2020	2021	2022	2023	2024	2025
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Existing annual caps	905.4	915.3	961.0	1,009.1	1,095.5	1,112.5

As shown in the tables above, the actual transaction amount for the eight months ended 31 August 2021 under the Master Supply Agreements reached approximately 78.5% of the existing annual cap for the year ending 31 December 2021 and have exceeded the actual transaction amount for the year ended 31 December 2020.

LETTER FROM THE BOARD

The Company proposes that the below Revised Annual Caps be set for the Master Supply Agreements for the five years ending 31 December 2025:

	For the year ending 31 December				
	2021	2022	2023	2024	2025
	(RMB	(RMB	(RMB	(RMB	(RMB
	million)	million)	million)	million)	million)
Revised Annual Caps	1,300	1,430	1,573	1,730	1,903

(e) Reasons for Revising the Annual Caps and Basis of Determination

The Board has closely monitored the transaction amounts under the Master Supply Agreements. During a recent review, it is found that due to the increase in the PNG sales volume of the Group attributable to the increase in the number of customers and the returning to normal of business operations following the recovery from the impact of the coronavirus disease 2019, as well as the increase in the government regulated price of PNG in 2021, the total PNG charges under the Master Supply Agreements are expected to exceed the existing annual cap of RMB915.3 million for the year ending 31 December 2021 in or around November 2021. The Group did not exceed the annual cap of RMB905.4 million for the year ended 31 December 2020. Up to the Latest Practicable Date, the Group has not exceeded the annual cap of RMB915.3 million for the year ending 31 December 2021.

In determining the Revised Annual Caps, the Group has taken into account (i) the potential growth in demand for PNG in the Operating Area; (ii) the growth in distribution capacity of the Group; (iii) the amount of PNG expected to be purchased by the Group from Jiaying Pipeline Company based on the historical transaction amounts; (iv) the historical growth in unit purchase price for PNG; and (v) the historical growth in government regulated price for PNG.

(i) The potential growth in demand for PNG in the Operating Area

- Growth in PNG sales volume – for each of the years ended 31 December 2017, 2018, 2019 and 2020, the PNG sales volume was approximately 262.4 million m³, 376.6 million m³, 365.4 million m³ and 323.0 million m³, respectively, which show a stable PNG sales volume over the years despite the drop owing to the outbreak of the pandemic. For each of the six months ended 30 June 2020 and 2021, the PNG sales volume was approximately 153.3 million m³ and 259.1 million m³, respectively, representing an increase of 69.0% as a result of recovery from the impact of the pandemic.

LETTER FROM THE BOARD

2. Favourable governmental policies – the demand for PNG has been positively influenced by the continuous promotion of “coal-to-gas” environmental friendly policies, including the 14th Five-Year Plan for Coal, Petroleum and Natural Gas Development (《浙江省煤炭石油天然氣發展“十四五”規劃》) released by Zhejiang Energy Administration in July 2021 (the “**14th Five-Year Plan**”), which aims to accelerate the implementation of “coal-to-gas” in Zhejiang Province. In 2020, the natural gas consumption in Zhejiang Province was 14.3 billion m³, accounting for 7.0% of total primary energy consumption. The goal of the 14th Five-Year Plan is to increase the proportion of natural gas consumption in the primary energy consumption in Zhejiang Province to 13.0% by 2025 by consuming 31.5 billion m³ of natural gas. The 14th Five-Year Plan proposes to actively increase gas consumption by industrial users, actively promote natural gas distributed energy projects, and encourage the use of natural gas to meet new energy demand in the industries with high energy consumption levels such as building materials and textiles industries. With more policies to be implemented during the 14th Five-Year Plan period, the Directors expect that the energy consumption structure in Zhejiang Province will be further optimised and be more favourable to clean energy such as natural gas.
3. Increase in new customers – as at 31 December 2017, 2018, 2019 and 2020, the Group had approximately 296,000, 323,000, 349,000 and 380,000 users, respectively, within the pipeline network, which represents an average annual growth of 8.6%. As at 30 June 2020 and 2021, the Group had approximately 360,000 and 394,000 users, respectively, which represents a 9.4% period-on-period growth. The increase in new customers is in line with the growth in demand in the Operating Area.
4. Seasonality – the Company generally derives higher revenue in the second half of the year, mainly due to the increase in sales of gas in winter, particularly for residential users as they usually consume more gas to generate heat in winter. For the three years ended 31 December 2018, 2019 and 2020, the purchase volume of PNG from Jiaying Pipeline Company for the four months ended 31 December represented 31.8%, 37.1% and 39.0% of the total purchase volume of PNG from Jiaying Pipeline Company for the respective years.

LETTER FROM THE BOARD

(ii) Growth in distribution capacity

The Group is the largest PNG supply operator in Jiaying as at the Latest Practicable Date. As at 30 June 2020, 31 December 2020 and 30 June 2021, the natural gas pipeline network operated by the Group had a total length of approximately 896.6 km, 943.0 km and 973.8 km in the Operating Area, respectively, which show a continuing expansion in distribution capacity of the Group and an annual growth of approximately 8.6%. The Directors believe that the length of the natural gas pipeline network is directly proportional to the volume of PNG that the Group could supply to its customers. With the continuing expansion of the gas pipeline network, the Directors expect there to be a corresponding rise in the volume of PNG that the Group would have to source from Jiaying Pipeline Company to satisfy customer demand.

(iii) Historical transaction amounts of PNG with Jiaying Pipeline Company

The historical transaction amount with Jiaying Pipeline Company for each of the years ended 31 December 2017, 2018, 2019 and 2020 was approximately RMB543.6 million, RMB832.1 million, RMB887.0 million and RMB583.8 million, respectively, which show a steady historical growing trend between 2017 to 2019 despite a drop in 2020 due to the reduction in government regulated price in light of the pandemic and the reduction in consumption by commercial and industrial users due to lockdowns during the severe periods of the pandemic. The historical transaction amount for each of the six months ended 30 June 2020 and 2021 was approximately RMB296.9 million and RMB538.8 million, respectively, which show a 81.5% growth mainly due to the rebound in demand for PNG in the Operating Area as well as the increase in government regulated price following the end of the price reduction measures imposed during the severe periods of the pandemic in 2020.

(iv) Historical growth in unit purchase price for PNG

The average unit purchase price for PNG by the Group, which is calculated by dividing the Group's total PNG purchase cost by the total PNG purchase volume for each of the years ended 31 December 2017, 2018, 2019 and 2020, was RMB2.06/m³, RMB2.17/m³, RMB2.45/m³ and RMB2.27/m³, respectively, which show a steady growing trend, with an average annual growth of approximately 9.1% prior to the outbreak of the pandemic.

(v) Historical growth in government regulated price for PNG

Historically the government regulated price for PNG was increased by the relevant government authorities for heating season. According to the pricing notices issued by Zhejiang Province in the three years ended 31 December 2020, the government regulated price of PNG was adjusted upward

LETTER FROM THE BOARD

for approximately 30.1%, 7.0%, and 17.4% for the heating season. It is expected that the selling price of PNG will be adjusted upward in the heating season of 2021 similarly.

In arriving at the Revised Annual Cap of RMB1,300 million for the year ending 31 December 2021, the Directors have taken into account that the average purchase volume of PNG from September to December out of the annual purchase volume of PNG for the three years ended 31 December 2020 was approximately 36.0%, and estimated the annualised purchase volume for the year ending 31 December 2021 to be approximately 510.3 million m³, and multiplied such annualised purchase volume by the average selling price of PNG, being RMB2.45/m³ which was the average selling price of PNG in 36 PRC cities from January 2001 to July 2021 according to CEIC Data Company Ltd, an independent data provider in the international financial information service industry.

In arriving at the annual growth rate of approximately 10% for the Revised Annual Caps for the five years ending 31 December 2025, the Directors have taken into account the general growing trend and favourable governmental policies as elaborated above, and based on the compound annual growth rate of the volume of PNG purchased by the Group between the volume for the year ended 31 December 2018 (384.3 million m³) and the annualised volume for the year ending 31 December 2021 (489.9 million m³) of approximately 8.4%, and applied a buffer to cater for any further increase in transaction amounts triggered by the factors such as price and demand as discussed above.

Mr. He Yujian, being the chairman of Jiaying Pipeline Company and a non-executive Director of the Company, has abstained from voting on the board resolution approving the Revised Annual Caps. The independent non-executive Directors, whose view has been given after taking the advice from the Independent Financial Adviser, consider that the Master Supply Agreements and the Revised Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(f) Internal Control

To ensure that the transactions under the Master Supply Agreements comply with the pricing terms stated therein, the Company has adopted the following internal control measures:

- (i) The chief executive officer of the Company is overall responsible for the review and approval of connected transactions. The chief executive officer of the Company is assisted by the person-in-charge of the finance department of the Company to monitor regularly the carrying out of the connected transactions entered into by the Group in the ordinary and

LETTER FROM THE BOARD

usual course of the business of the Group to ensure compliance with the terms under relevant agreements and the Listing Rules.

- (ii) The relevant regulatory notices setting the government regulated prices shall be reported by the relevant business unit to the chief executive officer and the person-in-charge of the finance department as soon as they are received.
- (iii) The person-in-charge of the finance department will review the table containing the actual transaction amounts and prices compiled by the relevant business unit on a monthly basis.
- (iv) The connected transactions will be reported to the audit committee of the Company (which comprises all independent non-executive Directors) on an annual basis.
- (v) The audit committee of the Company will review the connected transactions every year in relation to, among others, whether the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and whether they are carried out in accordance with the relevant agreements and on terms that are fair and reasonable and in the interest of the Shareholders as a whole.
- (vi) Through reviewing the information gathered from the finance department of the Company, the external auditor of the Company will report to the Board annually on the continuing connected transactions of the Group in relation to, among others, whether the transactions were entered into in accordance with the relevant agreements including the pricing policies and whether the transactions exceeded the annual caps pursuant to the Listing Rules.

The Directors are of the view that the internal control measures above can ensure that the transactions under the Master Supply Agreements are on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(g) Information on the Parties Involved

The Group is principally engaged in the sales of PNG (under the Concessions), liquefied natural gas and liquefied petroleum gas in Jiaxing, provision of construction and installation services to construct and install end-user pipeline network and gas facilities for customers and provision of natural gas transportation services, sales of vapour and construction materials, and leasing of properties.

Jiaxing Pipeline Company, a limited liability company established under the laws of the PRC on 2 June 2006, is principally engaged in building pipeline networks in Jiaxing and supplies PNG as an upstream supplier. Jiaxing Pipeline Company is a

LETTER FROM THE BOARD

direct wholly-owned subsidiary of City Development, a substantial Shareholder, which is indirectly wholly-owned by Jiaxing State-owned Assets Supervision and Administration Commission (嘉興市國有資產監督管理委員會) as at the Latest Practicable Date.

(h) Listing Rules Implications

As at the Latest Practicable Date, Jiaxing Pipeline Company was a direct wholly-owned subsidiary of City Development, a substantial Shareholder. As such, Jiaxing Pipeline Company is regarded as an associate of City Development, and hence a connected person of the Company pursuant to Rule 14A.13(1) of the Listing Rules. The transactions contemplated under the Master Supply Agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules.

At the time of the listing of the H Shares on the Stock Exchange in June 2020, the Stock Exchange granted a waiver to the Company in respect of the Master Supply Agreements from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules subject to the annual caps.

The proposed Revised Annual Caps under the Master Supply Agreements exceeds HK\$10 million and one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) also exceeds 5% for each of the five years ending 31 December 2025, pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Master Supply Agreements and the transactions contemplated thereunder.

The terms of the Master Supply Agreements are longer than three years. Pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged the Independent Financial Adviser to explain why the Master Supply Agreements require a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration, details of which are set out in the letter from the Independent Financial Adviser on pages 21 to 33 of this circular.

3. EGM AND PROXY ARRANGEMENT

The notice of the EGM to be held at the meeting room of the Company, 4th Floor, Building 3, Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, the PRC on Thursday, 4 November 2021 at 10:00 a.m. is set out on pages 44 to 46 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

City Development, which held 32,757,502 Domestic Shares as at the Latest Practicable Date, has a material interest in the Master Supply Agreements and the Revised Annual Caps and hence is required to abstain from voting on the relevant resolution to approve the Revised Annual Caps at the EGM, pursuant to Rule 14A.36 of the Listing Rules. To the best of the knowledge, information and belief of the Directors, save as disclosed above, none of the Shareholders are required to abstain from voting on the resolution put to vote at the EGM.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.jxrgs.com>). To be valid, for H Shareholders, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authorisation documents (if any) under which it is signed or a notarised letter of authority at the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. For Domestic Shareholders, the form of proxy should be returned to the Company's registered office in the PRC at 5th Floor, Building 3, Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, PRC by personal delivery or by post not less than 24 hours before the time fixed for holding the EGM (i.e. at or before 10:00 a.m. on Wednesday, 3 November 2021 (Hong Kong time)) or any adjournment thereof (as the case maybe).

Completion, signing and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case maybe) if you so wish.

4. CLOSURE OF H SHARE REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 29 October 2021 to Thursday, 4 November 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, H Shareholders whose transfers have not been registered shall deposit all transfer documents accompanied by the relevant share certificates at the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 28 October 2021 (Hong Kong time).

5. RECOMMENDATIONS

The Board of Directors (including the independent non-executive Directors whose views have been formed taking the advice of the Independent Financial Adviser into account) considers that the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

LETTER FROM THE BOARD

6. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out in pages 19 to 20 of this circular which contains its advice to the Independent Shareholders regarding the Master Supply Agreements and the Revised Annual Caps, the letter from the Independent Financial Adviser set out in pages 21 to 33 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Master Supply Agreements and the Revised Annual Caps and the principal factors and reasons taken into consideration in arriving at its advice.

Yours faithfully,
For and on behalf of the Board
JiaXing Gas Group Co., Ltd.*
Sun Lianqing
Chairman and Executive Director

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular.



JiaXing Gas Group Co., Ltd.*
嘉興市燃氣集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 9908)

15 October 2021

To the Independent Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAPS FOR
MASTER SUPPLY AGREEMENTS**

We refer to the circular of the Company to the Shareholders dated 15 October 2021 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider whether the Master Supply Agreements and the Revised Annual Caps are on normal commercial terms, entered into in the ordinary and usual course of business of the Group, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to voting at the EGM.

The Independent Financial Adviser has been appointed by the Company to advise us and the Independent Shareholders in this regard. Details of the independent advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration, are set out on pages 21 to 33 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 5 to 18 of the Circular and the letter of advice from the Independent Financial Adviser set out on pages 21 to 33 of the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other things, the principal factors and reasons underlying the Master Supply Agreements and the Revised Annual Caps as well as the advice of the Independent Financial Adviser as set out in the Circular, we consider the Master Supply Agreements and the Revised Annual Caps are on normal commercial terms, entered into in the ordinary and usual course of business of the Group, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution for approving the Revised Annual Caps set out in the notice of the EGM.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
JiaXing Gas Group Co., Ltd.*
Yu Youda
Cheng Hok Kai Frederick
Zhou Xinfu

* *For identification purpose only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps.

15 October 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

REVISION OF ANNUAL CAPS FOR MASTER SUPPLY AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 15 October 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As disclosed in the Prospectus, on 16 June 2016, the Group and Jiaxing Pipeline Company entered into the Master Supply Agreements valid until 31 December 2025, pursuant to which the Group shall purchase PNG from Jiaxing Pipeline Company. In accordance with the Master Supply Agreements, the purchase price is determined in accordance with the price set by Jiaxing Municipal People’s Government.

As it is expected that the actual transaction amounts of the PNG charges under the Master Supply Agreements will exceed the existing annual caps as set out in the Prospectus from the year ending 31 December 2021, the Company proposes to revise the existing annual caps for the five years ending 31 December 2025.

As at the date of Latest Practicable Date, Jiaxing Pipeline Company was a direct wholly-owned subsidiary of City Development, a Substantial Shareholder. As such, Jiaxing Pipeline Company is regarded as an associate of City Development, and hence a connected person of the Company pursuant to Rule 14A.13(1) of the Listing Rules. The transactions contemplated under the Master Supply Agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

At the time of the listing of the H Shares on the Stock Exchange in June 2020, the Stock Exchange granted a waiver to the Company in respect of the Master Supply Agreements from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules subject to the annual caps.

The proposed Revised Annual Caps under the Master Supply Agreements exceeds HK\$10 million and one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) also exceeds 5% for each of the five years ending 31 December 2025, pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Master Supply Agreements and transactions contemplated thereunder.

The terms of the Master Supply Agreements are longer than three years. Pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged the Independent Financial Adviser to explain why the Master Supply Agreements require a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yu Youda, Mr. Cheng Hok Kai Frederick and Mr. Zhou Xinfu, has been established to advise the Independent Shareholders as to the Revised Annual Caps and whether the Independent Shareholders should vote in favour of the relevant resolution to be proposed at the EGM to approve the Revised Annual Caps. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, other than the engagement as the independent financial adviser in relation to the pipeline network lease agreement announced on 30 December 2020 (the "**Previous Engagement**"), there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with the Previous Engagement and this appointment as the Independent Financial Adviser, no arrangement exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we are qualified to give independent advice in respect of the Revised Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, amongst other things, (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the management of the Group (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the Management for which they are solely and wholly responsible for, or contained or referred

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the EGM and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, or any of their respective subsidiaries and associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Revised Annual Caps, and except for its inclusion in the Circular and for the purpose of the EGM, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have considered the following principal factors and reasons:

1. Background information of the Group

The Company is principally engaged in the sales of PNG (under the Concessions), liquefied natural gas and liquefied petroleum gas in Jiaxing, provision of construction and installation services to construct and install end-user pipeline network and gas facilities for customers and provision of natural gas transportation services, sales of vapour and construction materials, and leasing of properties.

Historical financial information

The following table summarises the financial information of the Group for two years ended 31 December 2020 and for the six months ended 30 June 2020 and 2021 extracted from the annual report of the Company for the years ended 31 December 2020 (the “**2020 Annual Report**”) and interim results announcement for the six months ended 30 June 2021 (the “**2021 Interim Results Announcement**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December		For six months ended 30 June	
	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	1,330,332	1,273,713	558,143	897,895
Gross profit	197,065	223,572	88,997	125,631
Profit/(loss) before tax	117,342	125,462	53,235	81,711
Profit for the year	89,366	95,482	41,303	61,713
	As at 31 December		As at 30 June	
	2019	2020	2021	
	RMB'000	RMB'000	RMB'000	
	(Audited)	(Audited)	(Unaudited)	
Cash and cash equivalents		63,146	342,317	306,514
Total assets		1,354,769	1,715,019	1,761,640
Total liabilities		997,940	960,586	979,955
Net assets		356,829	754,433	781,685

For the year ended 31 December 2019 and 2020

The Group's revenue decreased by approximately 4.3% from approximately RMB1,330.3 million for the year ended 31 December 2019 to approximately RMB1,273.7 million for the year ended 31 December 2020. As stated in the 2020 Annual Report, such decrease was mainly caused by the decline in the average unit selling price of natural gas. The Group's net profit increased from approximately RMB89.4 million for the year ended 31 December 2019 to approximately RMB95.5 million for the year ended 31 December 2020, mainly due to increase in gross profit from natural gas sales and the rise in the scale of project construction compared with 2019.

As at 31 December 2020, total asset of the Group increased by approximately 26.6%, from approximately RMB1,354.8 million for the year ended 31 December 2019 to approximately RMB1,715.0 million, which was mainly attributable to the increase in cash and cash equivalents, increased from approximately RMB63.1 million for the year ended 31 December 2019 to approximately RMB342.3 million for the year ended 31 December 2020. As at 31 December 2020, total liabilities of the Group amounted to approximately RMB960.6 million, slightly decreased by approximately 3.7% or RMB37.4 million from the year ended 31 December 2019, which was mainly attributable to the decrease in the current portion of the interest-bearing bank borrowings by approximately RMB173.4 million, partially offset by (i) the increase in non-current portion of the interest-bearing bank borrowings by approximately RMB94.5 million; and (ii) the increase in trade and bills payables by approximately RMB37.2 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the six months ended 30 June 2020 and 2021

The Group's revenue increased by 60.9% from approximately RMB558.1 million for the six months ended 30 June 2020 to approximately RMB897.9 million for the six months ended 30 June 2021. As stated in the 2021 Interim Result Announcement, such increase was mainly caused by actively expanded various businesses and varying magnitudes growth after the Covid-19 pandemic has stabilized. The Group's net profit increased from approximately RMB41.3 million for six months ended 30 June 2020 to approximately RMB61.7 million for the six months ended 30 June 2021, mainly due to the effective control of the Covid-19 pandemic, user capacity has recovered and increased, gas consumption has increased, and the scale of project construction has increased.

The total asset of the Group increased by approximately 2.7%, from approximately RMB1,715.0 million as at 31 December 2020 to approximately RMB1,761.6 million as at 30 June 2021, which was mainly attributable to the increase in (i) investments in joint ventures by approximately RMB52.2 million; and (ii) trade and bills receivables by approximately RMB38.3 million, partially offset by the decrease in cash and cash equivalents by approximately RMB35.8 million. As at 30 June 2021, total liabilities of the Group amounted to approximately RMB980.0 million, slightly increased by approximately 2.0% from the year ended 31 December 2020, which was mainly attributable to the increase in trade and bill payables by approximately RMB21.3 million.

2. Background information of the connected person

Jiaxing Pipeline Company, a limited liability company established under the laws of the PRC on 2 June 2006, is principally engaged in building pipeline networks in Jiaxing and supplies piped natural gas as an upstream supplier. Jiaxing Pipeline Company is a direct wholly-owned subsidiary of City Development, a Substantial Shareholder, which is indirectly wholly-owned by Jiaxing State-owned Assets Supervision and Administration Commission (嘉興市國有資產監督管理委員會) as at the Latest Practicable Date.

3. Principal terms of the Master Supply Agreements, the Revised Annual Cap and the transactions contemplated thereunder

On 16 June 2016, the Group and Jiaxing Pipeline Company entered into the Master Supply Agreements valid until 31 December 2025. Save for the revision of the Annual Caps, all other terms and conditions of the Master Supply Agreements shall remain unchanged. For the details of the principal terms of the Master Supply Agreements, please refer to the sub-section headed "Revision of Annual Caps" in the Letter from the Board.

4. Reasons for and benefits of the continuing connected transaction under the Master Supply Agreements

As stated in the Letter from the Board, the Board has closely monitored the transaction amounts under the Master Supply Agreements. During a recent review, it is found that due to the increase in the PNG sales volume of the Group attributable to the increase in the number of customers and the returning to normal of business operations following the recovery from the impact of the coronavirus disease 2019, as well as the increase in the government regulated price of PNG in 2021, the total PNG charges under the Master Supply Agreements are expected to exceed the existing annual cap of RMB915.3 million for the year ending 31 December 2021 in or around November 2021. The Group did not exceed the annual cap of RMB905.4 million for the year ended 31 December 2020. Up to the Latest Practicable Date, the Group has not exceeded the annual cap of RMB915.3 million for the year ending 31 December 2021.

Taking into consideration that (i) the procurement of the PNG by the Group from Jiaying Pipeline Company are related to the increasing sales and recovering of the Group's principal business; (ii) the Group has been purchasing from Jiaying Pipeline Company historically; (iii) Jiaying Pipeline Company has proven to be a reliable supplier to the Group, which is important to the operations and business of the Group; and (iv) the payment terms and selling price should be no less favorable to the Group than those offered by independent third parties to the Group in comparable transactions, we are of the opinion that the entering into of the Master Supply Agreements is within the ambit of the businesses currently run by the Group and (a) is therefore conducted in the ordinary and usual course of the Group's businesses; (b) is on normal commercial terms; (c) is fair and reasonable; and (d) is in the interests of the Group and the Shareholders as a whole.

5. Historical transaction amount

For the years ended 31 December 2019 and 2020, the purchase of the PNG from Jiaying Pipeline Company amounted to approximately RMB887.0 million and RMB583.8 million, or a volume of 361.8 million m³ and 257.4 million m³, respectively. The historical actual purchase under the Master Supply Agreements for the year ended 31 December 2020 represents approximately 64.5% of the underlying corresponding existing annual cap.

For the period from 1 January 2021 to 31 August 2021, the purchase of the PNG from Jiaying Pipeline Company amounted to approximately RMB718.8 million, or a volume of 326.6 million m³, represents approximately 78.5% of the underlying corresponding existing annual cap for the year ending 31 December 2021, illustrating a constantly high utilisation rate of the existing annual caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Revised Annual Caps

The table below sets forth the existing annual caps and the Revised Annual Caps under the Master Supply Agreements for the five years ending 31 December 2025.

For the year ending 31 December	Existing annual caps	Revised Annual Caps	Projected purchasing volume
2021	RMB915.3 million	RMB1,300.0 million (note)	511.0 million m ³ (note)
2022	RMB961.0 million	RMB1,430.0 million	583.0 million m ³
2023	RMB1,009.1 million	RMB1,573.0 million	641.3 million m ³
2024	RMB1,095.5 million	RMB1,730.0 million	705.4 million m ³
2025	RMB1,112.5 million	RMB1,903.0 million	776.0 million m ³

Note: For the six months ended 30 June 2021, the aggregate transaction value of purchase of PNG by the Group from Jiaying Pipeline Company amounted to approximately RMB538.8 million, or a volume of 242.2 million m³. For the eight months ended 31 August 2021, the aggregate transaction value of purchase of PNG by the Group from Jiaying Pipeline Company amounted to approximately RMB718.8 million, or a volume of 326.6 million m³. We have also discussed with the Management, and were advised that the demand and selling price of PNG usually increase in second half of the year due to higher consumption in autumn and winter. We have reviewed the monthly sales transaction amount and volume of PNG for the three years ended 31 December 2020, noted that the sales increase in second half of the respective year. The purchase volume of PNG for the four months ended 31 December 2018, 2019 and 2020 represented 31.8%, 37.1% and 39.0% of the total purchase volume of the respective years. According to the pricing notice issued by Zhejiang Province, we noted that the selling price of PNG adjusted upward for approximately 30.1%, 7.0% and 17.4% for the respective second half of three years ended 31 March 2021. The annualized transaction amount for the year ended 31 December 2021 was approximately RMB1,250.2 million, taking into account of (i) the average of monthly volume purchased from September to December to the total purchase volume for the year amounted to approximately 36.0%; and (ii) the average selling price of PNG, being RMB2.45/m³, which is comparable to the Revised Annual Cap in 2021.

We have discussed with the Management as to the reasons for revising the existing annual caps to the Revised Annual Caps and were advised that in view of (i) the potential growth in demand for PNG in the Operating Area; (ii) the growth in distribution capacity of the Group; (iii) the amount of PNG expected to be purchased by the Group from Jiaying Pipeline Company based on the historical transaction amounts; (iv) the historical growth in unit purchase price for PNG; and (v) the historical growth in government regulated price for PNG, the existing annual caps will not be sufficient for the Group's new projected procurement volume of the PNG for five years ending 31 December 2025.

In assessing the fairness and reasonableness of the Revised Annual Caps, we have obtained and reviewed the sales projection in estimating the Revised Annual Caps, and discussed with the Management on the basis and assumptions underlying for the determination of the Revised Annual Caps as below:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, in the event of shortage of supply of PNG from Jiaxing Pipeline Company, the Group could supplement the PNG supply through the gasification of liquefied natural gas the Group purchased from other suppliers. Given that Jiaxing Pipeline Company is the sole direct supplier of PNG to the Company, sample invoices on the purchase of liquefied natural gas are therefore obtained for comparison. We have randomly sample checked 22 invoices between the Company and independent third party suppliers for comparable transactions during 2021, comparing to that between the Company and Jiaxing Pipeline Company, representing approximately 50.1% of the transaction amount with the independent third party suppliers, and reviewed the full list of comparable transactions with independent third party suppliers for seven months ended 31 July 2021. Based on the samples, we noted that the price of the PNG offered by Jiaxing Pipeline Company to the Company is no less favorable than that offered by independent third party indirect suppliers. We also obtained the transaction list between Jiaxing Pipeline Company and the Company for the seven months ended 31 July 2021, and noted that the price of PNG offered by Jiaxing Pipeline Company was more favorable than that supplied by the independent third party. We have also reviewed and analyzed the basis of determining the sales projection, and noted that the average selling price of PNG in the sales projection is comparable to the market price according to the research conducted by CEIC Data Company Ltd (“CEIC”), an independent data provider in the international financial information service industry, compiling economic and financial data for research by economists and analysts. The data compiled by CEIC is used by investment banks, corporations, law firms, consultants, investment and insurance companies, universities and libraries, and multinational organizations. We noted that CEIC’s data were published in prospectus on the website of Hong Kong Exchanges and Clearing Limited, including but not limited to Huijing Holdings Company Limited (stock code: 9968), Datang Group Holdings Limited (stock code: 2117) and KWG Living Group Holdings Limited (stock code: 3913). According to research conducted by CEIC, (i) the average selling price of PNG in 36 PRC cities amounted to approximately RMB2.45/m³ from January 2001 to July 2021; and (ii) the average selling price of PNG in 36 PRC cities amounted to approximately RMB2.63/m³ in July 2021. Furthermore, as disclosed in the notice “Pricing Adjustment on Gas Supply in Heating Season” issued by Zhejiang Provincial Development and Reform Commission* (浙江省發展和改革委員會) in November 2020, the government regulated price of PNG adjusted upward by approximately 17.0% on average from November 2020 to March 2021. It is expected that the selling price of PNG will further increase in heating season of 2021. According to the Prospectus, the pricing policy under the Master Supply Agreements is determined in accordance with the price set by the relevant government authorities. The average selling price of PNG in 36 PRC cities is same as the projected average selling price of PNG of the Group. It is further noted that the Company make weekly payment to Jiaxing Pipeline Company as disclosed in the Letter from the Board, we therefore further reviewed 26 invoices in 52 weeks prior to August 2021, representing half of the transactions. The samples were selected on a random basis taking into consideration on the frequency of the occurrence of the payment during the last 52 weeks covering the periodic fluctuations in peak and off-peak seasons, therefore we consider the samples are sufficient and representative to demonstrate the historical pricing terms. We noted that the pricing terms complied with the government regulated prices. The terms on the Master Supply Agreements, including but not limited to pricing terms therefore are on normal commercial terms, is fair and reasonable and is in the interest of the Group and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted that the volume of PNG purchased of the Group amounted to approximately 384.3 million m³, 361.8 million m³, 257.4 million m³ and 242.2 million m³ for three years ended 31 December 2020 and six months ended 30 June 2021. The annualised volume of PNG to be purchased for the year ending 31 December 2021 is expected to be 489.9 million m³, representing a CAGR of approximately 8.4% from 2018. The total purchasing volume projection for the five months ending 31 December 2021 is approximately 226.0 million m³, representing approximately 67.5% of the average historical transaction amount for three years ended 31 December 2020 only. The sales volume of PNG of the Group amounted to 376.6 million m³, 365.4 million m³, 323.0 million m³ and 259.1 million m³ for three years ended 31 December 2020 and six months ended 30 June 2021, highlighting a strong demand of PNG in Jiaxing. Given the above, and the fact that the seasonal effect to the demand and selling price of PNG, we concur with the Management that the Revised Annual Caps, being calculated by (i) the average selling price of PNG, being RMB2.45/m³; (ii) the projected total purchasing volume of PNG for the five months ending 31 December 2021 under the Master Supply Agreements; and (iii) the annual growth rate of approximately 10% of the Annual Cap taking into account of the potential increase in government regulated price for PNG in the future are fair and reasonable.

As discussed with the Management, we noted that the natural gas supply industry in the PRC is highly regulated. Jiaxing Pipeline Company is responsible for investing in and constructing urban pipeline network and gas facilities in the Jiaxing Urban Operating Area which does not form part of the Group's pipeline area, where the Group do not have the exclusive concession right to construct urban pipeline network and gas facilities. Given that (i) Jiaxing Pipeline Company is the only direct upstream supplier of PNG in Jiaxing; and (ii) the Group's pipeline network is connected to the pipeline network of Jiaxing Pipeline Company, it is necessary to purchase PNG from Jiaxing Pipeline Company.

Considering (i) the sales of natural gas production and supply in the PRC amounted to approximately RMB713.3 billion for the eight months ended 31 August 2021, representing an increase of 27.0% for the corresponding period according to the National Bureau of Statistics of the PRC; (ii) there is an increase in the number of customers and the returning to normal of business operations following the recovery from the impact of the coronavirus disease 2019 as stated in the Letter from the Board; and (iii) Jiaxing's GDP reached approximately RMB294.2 billion, representing an increase of approximately 13.9% for the six months ended 30 June 2021 and a two years average growth of 7.0% according to notice "Problems and Suggestions for Economic and Social Development of the City" issued by Jiaxing Development and Reform Committee* (嘉興市發展和改革委員會) dated 18 August 2021, we are of the view that there is potential growth in demand for PNG in the Operating Area due to increasing people's energy consumption level, business activities and rapid development of the district. As stated in the announcement dated 30 December 2020, Jiaxing Pipeline Company shall lease all of its invested urban pipeline network and gas facilities in the Operating Area to the Company for its use and operation of its PNG business. The Group also obtained exclusive rights to sell and distribute PNG in the Group's Operating Area for an initial term of 25 years valid until 2033 as stated in the Prospectus.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, the demand for PNG has been positively influenced by the continuous promotion of “coal-to-gas” environmental friendly policies. Further to the 14th Five-Year Plan, networks of natural gas through pipelines have already been implemented in 82 cities in the Zhejiang Province. Save for certain villages in mountainous terrains and islands which still use liquefied natural gas, natural gas is basically transported to most of the cities in Zhejiang Province, of which the pipelines of natural gas make up a total distance of 3,528 km as at the end of 2020. Hence, it is expected that the demand of natural gas will increase in the near future.

In light of (a) increase in Jiaxing’s GDP, which indicate the potential growth in demand for PNG in Operating Area; and (b) the business operations of supplying PNG in Jiaxing by the Group, we concur with the Directors’ view that an annual growth rate of approximately 10% for the Revised Annual Caps for five years ending 31 December 2025 under the Master Supply Agreements, which factor in (i) the projected growth in gas sales; (ii) potential increase in the price set by the relevant government authorities; (iii) the historical three years compound annual growth rate of PNG of approximately 8.4%, being slightly below the annual growth rate of Revised Annual Caps; and (iv) the demand of natural gas is expected to increase in the near future according to the implementation of “coal-to-gas” in Zhejiang Province, is fair and reasonable.

In assessing the fairness and reasonableness of the duration of the Master Supply Agreements, we have, on a best effort basis, conducted analysis of infrastructure related transactions announced by companies listed on the Stock Exchange. We have identified, to the best of our efforts, two comparable transactions (the “**Comparable Transactions**”) during 2020 and 2021. Although the principal business of the companies listed below may not be exactly the same with that of the Company, we considered that the Comparable Transactions (i) fall within the core business of the respective companies; and (ii) focus on providing public utilities, which are comparable to the nature of Master Supply Agreements, details of our findings are summarised as below:

Date of announcement	Company name (Stock code)	Purpose of the transaction	Duration of the transaction
30 November 2020	ENN Energy Holdings Limited (2688)	Provision of liquefied natural gas terminal usage services	10 years
23 April 2020	Binhai Investment Company Limited (2886)	Supply of gas	19 years

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the findings from the above due diligence performed, we noted that the proposed term, being five years, for Master Supply Agreements is less than that of the Comparable Transactions, ranged from 10 to 19 years. Accordingly, we concur with the Company that the Master Supply Agreements requires a longer period and that it is normal business practice for agreements of similar nature to be of such duration.

Given that (i) Jiaxing Pipeline Company has been the sole direct supplier of PNG to the Company; (ii) the Company was granted the exclusive right to sell and distribute PNG in the Operating Area for an initial term of 25 years valid until 2033; (iii) the purchase price is determined in accordance with the price set by Jiaxing Municipal People's Government; and (iv) a longer term could ensure a stable supply of PNG to the Group, which in turn secure the supply of PNG to the end-users, we are of a view that entering into the Master Supply Agreements for a period of more than three years will avoid any unnecessary business interruption and is in line with normal business practice which is beneficial to the Company and Shareholders as a whole.

7. Internal control measures within the Group

The Company has established a series of internal control measures in order to ensure the compliance with the pricing principles of the Master Supply Agreements. As discussed with the Management, the Group has adopted the following internal control measures:

- (i) The chief executive officer of the Company is overall responsible for the review and approval of connected transactions. The chief executive officer of the Company is assisted by the person-in-charge of the finance department of the Company to monitor regularly the carrying out of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group to ensure compliance with the terms under relevant agreements and the Listing Rules.
- (ii) The relevant regulatory notices setting the government regulated prices shall be reported by the relevant business unit to the chief executive officer and the person-in-charge of the finance department as soon as they are received.
- (iii) The person-in-charge of the finance department will review the table containing the actual transaction amounts and prices compiled by the relevant business unit on a monthly basis.
- (iv) The connected transactions will be reported to the Audit Committee of the Company (which comprises all independent non-executive Directors) on an annual basis.
- (v) The Audit Committee will review the connected transactions every year in relation to, among others, whether the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and whether they are carried out in accordance with the relevant agreements and on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (vi) Through reviewing the information gathered from the finance department of the Company, the external auditor of the Company will report to the Board annually on the continuing connected transactions of the Group in relation to, among others, whether the transactions were entered into in accordance with the relevant agreements including the pricing policies and whether the transactions exceeded the annual caps pursuant to the Listing Rules.

The Directors are of the view that the internal control measures above can ensure that the transactions contemplated under the Master Supply Agreements are on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

The Directors confirmed that the Company shall comply with the requirements of Rule 14A.53 to Rule 14A.59 of the Listing Rules pursuant to which (i) the values of the transactions under the Master Supply Agreements must be restricted by the Revised Annual Caps for the period concerned under the Master Supply Agreements; (ii) the terms of the transactions under the Master Supply Agreements must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the transactions contemplated under the Master Supply Agreements must be included in the Company's subsequent published annual reports and financial accounts.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions contemplated under the Master Supply Agreements (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and (iv) have exceeded the annual caps.

In the event that the total amounts of the transactions contemplated under the Master Supply Agreements are anticipated to exceed the Revised Annual Caps, or that there is any proposed material amendment to the terms of the Master Supply Agreements, as confirmed by the Directors, the Company shall re-comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

RECOMMENDATION

Given that the Master Supply Agreements exceed three years, we considered (i) Jiaying Pipeline Company has been the sole direct supplier of PNG to the Company; (ii) the Company was granted the exclusive right to sell and distribute PNG in the Operating Area for an initial term of 25 years valid until 2033; (iii) the purchase price is determined in accordance with the price set by Jiaying Municipal People's Government; and (iv) a longer term could ensure a stable supply of PNG to the Group, which in turn secure the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

supply of PNG to the end-users, therefore we are of the view that the Master Supply Agreements requires a longer period and that it is normal business practice for agreements of similar nature to be of such duration.

Having taken into consideration that (i) the average selling price of PNG in purchase projection is comparable to the market price; (ii) the volume of PNG in purchase projection is in line with the historical growth of the Group's purchase; (iii) the annual growth rate of approximately 10% for the Revised Annual Caps for five years ending 31 December 2025 is in line with the historical growth in the Group's sales of PNG and the growth in GDP of Jiaxing; and (iv) Jiaxing Pipeline Company is the only direct upstream supplier of PNG in Jiaxing and the Group's pipeline network is connected to the pipeline network of Jiaxing Pipeline Company, we are of the opinion that (i) the Master Supply Agreements are on normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders are concerned; (ii) the transactions contemplated under the Master Supply Agreements are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) the Revised Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to vote, and to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kaiser Wan
Executive Director

Mr. Kaiser Wan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 10 years of experience in the accounting and investment banking industries.

GENERAL INFORMATION

1. Responsibility Statement

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters and omission of which would make any statement herein or this circular misleading.

2. Disclosure of Interests and Short Positions in Shares and Underlying Shares

As at the Latest Practicable Date, so far as known to the Directors of the Company, the interests and short positions of the Directors, supervisors of the Company and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules are as follows:

Long Positions in the Domestic Shares of the Company:

Name	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding in the relevant class of Shares (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (Note 3)
Sun Lianqing (Note 4)	Interest in controlled corporation	35,045,103 (L)	35.05%	25.42%
Xu Songqiang (Note 4)	Beneficial owner	3,069,891 (L)	35.05%	25.42%
	Deemed interest pursuant to Section 317 of the SFO	31,975,212 (L)		

Notes:

- (1) The letter "L" denotes the long position in the Shares and underlying shares of the Company.
- (2) The calculation is based on the total number of 100,000,000 Domestic Shares in issue.
- (3) The calculation is based on the total number of 137,844,500 Shares in issue.

GENERAL INFORMATION

- (4) Zhejiang Taiding Investment Company Limited* (浙江泰鼎投資有限公司) (“**Taiding**”), Mr. Xu Songqiang, Ms. Xu Hua and Fengye Holdings Group Company Limited* (楓葉控股集團有限公司) (“**Fengye**”) are parties acting in concert pursuant to the acting in concert agreement dated 16 July 2021. Under the SFO, each member of the concert parties is deemed to be interested in the Shares beneficially owned by the other members of the concert parties. Mr. Sun Lianqing is interested in 65% of the equity interest in Taiding and is therefore deemed to be interested in the same number of Shares in which Taiding is interested under the SFO.

3. Directors’ Interest in Assets and Contracts

None of the Directors or supervisors of the Company had any interest, direct or indirect, in any assets which have been since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. He Yujian, being the chairman of Jiaying Pipeline Company and a non-executive Director of the Company, has abstained from voting on the Board resolution approving the Revised Annual Caps. Other than Mr. He Yujian, no Director has a material interest in the Master Supply Agreements or the Revised Annual Caps.

Save as the aforesaid, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting as at the date thereof and which was significant in relation to the business of the Group as at the Latest Practicable Date.

GENERAL INFORMATION

4. Substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) (a) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (b) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other members of the Group, were as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding in the relevant class of Shares (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (Note 3)
Taiding (Note 4)	Domestic Shares	Beneficial owner Deemed interest pursuant to Section 317 of the SFO	26,424,222 (L) 8,620,881 (L)	35.05%	25.42%
Xu Lili (徐麗麗) (Note 5)	Domestic Shares	Interest in a controlled corporation	35,045,103 (L)	35.05%	25.42%
Chen Ying (陳瑛) (Note 6)	Domestic Shares	Interest of spouse	35,045,103 (L)	35.05%	25.42%
Xu Hua (徐華) (Note 4)	Domestic Shares	Beneficial owner Deemed interest pursuant to Section 317 of the SFO	186,199 (L) 34,858,904 (L)	35.05%	25.42%
Fengye (Notes 4 and 7)	Domestic Shares	Beneficial owner Deemed interest pursuant to Section 317 of the SFO	5,364,791 (L) 29,680,312 (L)	35.05%	25.42%

GENERAL INFORMATION

Name of Shareholder	Class of Shares	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding in the relevant class of Shares (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (Note 3)
Zhejiang Fengye Environmental Technology Limited* (浙江楓葉環保科技有限公司)	Domestic Shares	Interest in a controlled corporation	35,045,103 (L)	35.05%	25.42%
Fu Shengying (傅生英) (Notes 4 and 7)	Domestic Shares	Interest in a controlled corporation	35,045,103 (L)	35.05%	25.42%
Fu Zhiquan (傅志權) (Notes 4 and 7)	Domestic Shares	Interest in a controlled corporation	35,045,103 (L)	35.05%	25.42%
City Development (Note 8)	Domestic Shares	Beneficial owner	32,757,502 (L)	32.76%	23.76%
Zhejiang Jiaying State-owned Capital Investment Management Company Limited* (浙江嘉興國有資本投資運營有限公司) (Note 8)	Domestic Shares	Interest in a controlled corporation	32,757,502 (L)	32.76%	23.76%
Jiaying State-owned Assets Supervision and Administration Commission* (嘉興市國有資產監督管理委員會) (Note 8)	Domestic Shares	Interest in a controlled corporation	32,757,502 (L)	32.76%	23.76%

GENERAL INFORMATION

Name of Shareholder	Class of Shares	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding in the relevant class of Shares (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (Note 3)
Zhuji Yujia New Energy Technology Company Limited* (諸暨宇嘉新能源科技有限公司) (“Zhuji Yujia”) (Note 9)	Domestic Shares	Beneficial owner	11,894,374 (L)	11.89%	8.62%
Qianyu Group Company Limited* (乾宇集團有限公司) (“Qianyu”) (Note 9)	Domestic Shares	Interest in a controlled corporation	11,894,374 (L)	11.89%	8.62%
Tang Shiyao (湯仕堯) (Note 9)	Domestic Shares	Interest in a controlled corporation	11,894,374 (L)	11.89%	8.62%
Fu Fangying (傅芳英) (Note 10)	Domestic Shares	Interest of spouse	11,894,374 (L)	11.89%	8.62%
Xinao Gas Development Company Limited* (新奧燃氣發展有限公司) (Note 11)	Domestic Shares	Beneficial owner	7,155,049 (L)	7.16%	5.19%
Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司) (Note 11)	Domestic Shares	Interest in a controlled corporation	7,155,049 (L)	7.16%	5.19%
ENN Energy Holdings Limited (新奧能源控股有限公司) (Note 11)	Domestic Shares	Interest in a controlled corporation	7,155,049 (L)	7.16%	5.19%

GENERAL INFORMATION

Name of Shareholder	Class of Shares	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding in the relevant class of Shares (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (Note 3)
ENN Energy Holdings Limited (新奧能源控股有限公司) (Note 12)	H Shares	Interest in a controlled corporation	4,355,500 (L)	11.51%	3.15%
Flat (Hong Kong) Co., Limited (福萊特(香港)有限公司) (Note 13)	H Shares	Beneficial owner	6,250,000 (L)	16.51%	4.53%
Flat Glass Group Co., Ltd. (福萊特玻璃集團股份有限公司) (Note 13)	H Shares	Interest in a controlled corporation	6,250,000 (L)	16.51%	4.53%
Hong Sung Timber Trading Co., Limited (香港泓盛木業貿易有限公司) (Note 14)	H Shares	Beneficial owner	5,301,000 (L)	14.01%	3.84%
Jiaxing Jinyuan Investment Co., Ltd.* (嘉興金源投資有限公司) (Note 14)	H Shares	Interest in a controlled corporation	5,301,000 (L)	14.01%	3.84%
Shen Xiaohong (沈小紅) (Note 14)	H Shares	Interest in a controlled corporation	5,301,000 (L)	14.01%	3.84%
Mingyuan Group Investment Limited (Note 15)	H Shares	Beneficial owner	5,300,000 (L)	14.00%	3.84%
Shum Tin Ching (沈天晴) (Note 15)	H Shares	Interest in a controlled corporation	5,300,000 (L)	14.00%	3.84%
Wang Xinmei (Note 16)	H Shares	Interest of spouse	5,300,000 (L)	14.00%	3.84%

GENERAL INFORMATION

Name of Shareholder	Class of Shares	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding in the relevant class of Shares	Total approximate percentage of shareholding in the total share capital of the Company
				(Note 2)	(Note 3)
Fashion Home International Trading Co., Limited (香港美時居國際貿易有限公司) (Note 17)	H Shares	Beneficial owner	1,900,000 (L)	5.02%	1.38%
Liu Zhenjiang (劉振江) (Note 17)	H Shares	Interest in a controlled corporation	1,900,000 (L)	5.02%	1.38%
Dan Hongying (但紅英) (Note 18)	H Shares	Interest of spouse	1,900,000 (L)	5.02%	1.38%

Notes:

- (1) The letter “L” denotes the shareholder’s long position in the Shares and underlying shares of the Company. The letter “S” denotes the shareholder’s short position in the Shares and underlying shares of the Company.
- (2) The calculation is based on the total number of 100,000,000 Domestic Shares in issue or 37,844,500 H Shares in issue.
- (3) The calculation is based on the total number of 137,844,500 Shares in issue.
- (4) Taiping, Mr. Xu Songqiang, Ms. Xu Hua and Fengye are parties acting in concert pursuant to the acting in concert agreement dated 16 July 2021. Under the SFO, each member of the concert parties is deemed to be interested in the Shares beneficially owned by the other members of the concert parties.
- (5) Ms. Xu Lili is interested in 35% of the equity interest in Taiping and is therefore deemed to be interested in the same number of Shares in which Taiping is interested under the SFO.
- (6) Ms. Chen Ying is the spouse of Mr. Xu Songqiang. Under the SFO, Ms. Chen Ying is deemed to be interested in the same number of Shares in which Mr. Xu Songqiang is interested.
- (7) Fengye was wholly-owned by Zhejiang Fengye Environmental Technology Limited* (浙江楓葉環保科技有限公司), which was owned as to 61% by Ms. Fu Shengying (傅生英) and 39% by Mr. Fu Zhiquan (傅志權). Under the SFO, each of Zhejiang Fengye Environmental Technology Limited*, Ms. Fu Shengying and Mr. Fu Zhiquan is deemed to be interested in the same number of Shares in which Fengye is interested.
- (8) City Development was wholly-owned by Zhejiang Jiaying State-owned Capital Investment Management Company Limited* (浙江嘉興國有資本投資運營有限公司), which was wholly-owned by Jiaying State-owned Assets Supervision and Administration Commission* (嘉興市國有資產監督管理委員會). Under the SFO, each of Zhejiang Jiaying State-owned Capital Investment Management Company Limited* and Jiaying State-owned Assets Supervision and Administration Commission is deemed to be interested in the same number of Shares in which City Development is interested.

GENERAL INFORMATION

- (9) Zhuji Yujia is wholly-owned by Qianyu, which is 40%-owned by Mr. Tang Shiyao (湯仕堯). Under the SFO, each of Mr. Tang Shiyao and Qianyu is deemed to be interested in the same number of Shares in which Zhuji Yujia is interested.
- (10) Ms. Fu Fangying (傅芳英) is the spouse of Mr. Tang Shiyao (湯仕堯) and is therefore deemed to be interested in the same number of Shares in which Mr. Tang Shiyao is interested under the SFO.
- (11) Xinao Gas Development Company Limited* (新奧燃氣發展有限公司) was a wholly-owned subsidiary of Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司), which was in turn a wholly-owned subsidiary of ENN Energy Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2688). Under the SFO, each of Xinao (China) Gas Investment Company Limited* and ENN Energy Holdings Limited is deemed to be interested in the same number of Shares in which Xinao Gas Development Company Limited* is interested.
- (12) The Shares are held by ENN Energy China Investment Limited, a wholly-owned subsidiary of ENN Energy Holdings Limited (新奧能源控股有限公司). Under the SFO, ENN Energy Holdings Limited is deemed to be interested in the same number of Shares in which ENN Energy China Investment Limited is interested.
- (13) Flat (Hong Kong) Co., Limited (福萊特(香港)有限公司) was a wholly-owned subsidiary of Flat Glass Group Co., Ltd., the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6865) and the Shanghai Stock Exchange (stock code: 601865). Under the SFO, Flat Glass Group Co., Ltd. is deemed to be interested in the same number of Shares in which Flat (Hong Kong) Co., Limited is interested.
- (14) Hong Sung Timber Trading Co., Limited (香港泓盛木業貿易有限公司) was a wholly-owned subsidiary of Jiaying Jinyuan Investment Co., Ltd.* (嘉興金源投資有限公司), which was in turn owned as to 75% by Mr. Shen Xiaohong (沈小紅). Under the SFO, each of Jiaying Jinyuan Investment Co., Ltd.* and Mr. Shen Xiaohong is deemed to be interested in the same number of Shares in which Hong Sung Timber Trading Co., Limited is interested.
- (15) Mingyuan Group Investment Limited was wholly-owned by Mr. Shum Tin Ching (沈天晴). Under the SFO, Mr. Shum Tin Ching is deemed to be interested in the same number of Shares in which Mingyuan Group Investment Limited is interested.
- (16) Ms. Wang Xinmei (王新妹) is the spouse of Mr. Shum Tin Ching (沈天晴). Under the SFO, Ms. Wang Xinmei is deemed to be interested in the same number of Shares in which Mr. Shum Tin Ching is interested.
- (17) Fashion Home International Trading Co., Limited (香港美時居國際貿易有限公司) was wholly-owned by Mr. Liu Zhenjiang (劉振江). Under the SFO, Mr. Liu Zhenjiang is deemed to be interested in the same number of Shares in which Fashion Home International Trading Co., Limited is interested.
- (18) Ms. Dan Hongying (但紅英) is the spouse of Mr. Liu Zhenjiang (劉振江). Under the SFO, Ms. Dan Hongying is deemed to be interested in the same number of Shares in which Mr. Liu Zhenjiang is interested.

Save as disclosed herein, as at the Latest Practicable Date, there was no person known to any Directors or chief executive of the Company, who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other member of the Group.

* For identification purpose only

GENERAL INFORMATION

5. Service Agreements

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had a service contract with any member of the Group which was not determinable by the Company or the relevant members of the Group within one year without payment of compensation other than statutory compensation.

6. Material Adverse Change

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

7. Competing Interest

As at the Latest Practicable Date, none of the Directors and his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group which would otherwise be required to be disclosed under Rule 8.10 of the Listing Rules if any of such Directors or his associates was a controlling Shareholder.

8. Qualification and Consent of Expert

The following are the qualifications of the expert who has given opinion or, advice contained in this circular:

Name	Qualification
Lego Corporate Finance Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

Lego Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, Lego Corporate Finance Limited was not beneficially interested in any share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and did not have any direct or indirect interest in any assets which since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or leased to, or was proposed to be acquired or disposed of by, or leased to any member of the Group.

GENERAL INFORMATION

9. Documents on Display

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.jxrqgs.com>) from the date of this circular up to and including the date of the EGM:

- (a) the Master Supply Agreements;
- (b) the letter of advice from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (c) the letter of advice from Lego Corporate Finance Limited, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this circular; and
- (d) the written consent from Lego Corporate Finance Limited as referred to in the paragraph headed “8. Qualification and Consent of Expert” in this section.

10. Miscellaneous

- (a) The registered office of the Company is located at 5th Floor, Building 3 Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, PRC.
- (b) The principal place of business of the Company in Hong Kong is at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (c) The H share registrar of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The joint company secretaries of the Company are Ms. Zhou Caihong and Ms. Lo Ka Man.
- (e) The English text of this circular shall prevail over its Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



JiaXing Gas Group Co., Ltd.*

嘉興市燃氣集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 9908)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of JiaXing Gas Group Co., Ltd.* (嘉興市燃氣集團股份有限公司) (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at the meeting room of the Company, 4th Floor, Building 3, Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, the People’s Republic of China (“**PRC**”) on Thursday, 4 November 2021 at 10:00 a.m. for the purpose of considering, and if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

1. To consider and approve the proposed revised annual caps for the five years ending 31 December 2025 for transactions under the two master supply agreements the Group entered into with Jiaxing Natural Gas Pipeline Network Management Co., Ltd.* (嘉興市天然氣管網經營有限公司) on 16 June 2016 for the supply of piped natural gas (the “**Revised Annual Caps**”) and any one director of the Company be and is hereby authorised to do all such acts or things and sign all documents deemed necessary by him for the purpose of giving effect to the Revised Annual Caps.

By Order of the Board
JiaXing Gas Group Co., Ltd.*
Sun Lianqing
Chairman and Executive Director

Jiaxing, the PRC
15 October 2021

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. The resolution at the EGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.jxrqgs.com>) in accordance with the Listing Rules.
2. A shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a shareholder of the Company. Where a shareholder appoints more than one proxy, his proxies can only vote on a poll. In view of the development of the coronavirus disease 2019 (COVID-19) pandemic, shareholders may consider appointing the chairman of the EGM as his/her proxy to vote on the resolution, instead of attending EGM in person.
3. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorised. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorised executive officer(s) or duly authorised attorney(ies). If that instrument is signed by an attorney of a shareholder, the power of attorney or other document authorising that attorney to sign must be notarised.
4. In order to be valid, the form of proxy together with the notarised power of attorney or other authorization document, if any, must be deposited at the Company’s registered office in the PRC (for domestic shareholders) or at the Company’s H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong (for holders of H shares) not less than 24 hours before the time fixed for the EGM (i.e. not later than 10:00 a.m. on Wednesday, 3 November 2021 (Hong Kong time)).
5. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 29 October 2021 to Thursday, 4 November 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, holders of H shares whose transfers have not been registered shall deposit all transfer documents accompanied by the relevant share certificates at the Company’s H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 28 October 2021 (Hong Kong time).
6. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer, or the revocation of the proxy or of the authority under which the form of proxy was executed, or the transfer of shares in respect of which the proxy is given, provided that no notice in writing of these matters shall have been received by the Company prior to the commencement of the EGM.
7. The address and contact details of the Company’s H share registrar, Tricor Investor Services Limited, are as follows:

As to the transfer documents:
Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong

As to the form of proxy:
Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong
Telephone No.: +852 2980 1333
Facsimile No.: +852 2810 8185
8. The address of the Company’s registered office in the PRC and the contact details of the regular contact person for the EGM are as follows:

5th Floor, Building 3, Hualong Plaza, Economic and Technological Development Zone, Jiaxing, Zhejiang Province, PRC
Telephone No.: +86 (573) 8221 6881
Facsimile No.: +86 (573) 8222 7685
Name: Shen Xiaoting

NOTICE OF EXTRAORDINARY GENERAL MEETING

9. In accordance with the Company's articles of association, where two or more persons are registered as the joint holders of any share, only the person whose name appears first in the register of members shall be entitled to receive this notice, and this notice, when served on such person, shall be deemed to have been given to all joint holders of such share.
10. The EGM is expected to be concluded within half a day. Shareholders (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses.
11. Shareholders or their proxies shall produce their identification documents for inspection when attending the EGM.

As at the date of this notice, our executive Directors are Mr. Sun Lianqing and Mr. Xu Songqiang, our non-executive Directors are Mr. He Yujian, Mr. Zheng Huanli, Mr. Fu Songquan and Mr. Ruan Hongliang and our independent non-executive Directors are Mr. Yu Youda, Mr. Cheng Hok Kai Frederick and Mr. Zhou Xinfa.