
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 **Binhai Investment Company Limited**, you should at once hand this circular, together with the enclosed proxy form, 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.

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

This circular, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. 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 the omission of which would make any statement herein or this circular misleading.



濱海投資有限公司

BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2886)

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH TEDA
AND
(2) CONTINUING CONNECTED TRANSACTIONS WITH ASSOCIATES OF
CHINA PETROLEUM & CHEMICAL CORPORATION**

**Independent financial adviser to the Independent Board Committee and
the Independent Shareholders**



A letter from the Board is set out on pages 8 to 39 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 40 to 41 of this circular. A letter from Octal, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 107 of this circular.

A notice convening the SGM to be held at Canvas 5, 26/F, The Park Lane Hong Kong Hotel, 310 Gloucester Road, Causeway Bay, Hong Kong at 10:00 a.m. on Thursday, 23 December 2021 is set out on pages 112 to 115 of this circular. Whether or not you are able to attend the meeting in person, you are recommended to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude you from subsequently attending and voting in person at the meeting or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

Please refer to pages 1 to 2 of this circular for measures being taken to prevent and control the spread of the Novel Coronavirus (COVID-19) at the SGM, including:

- **compulsory temperature checks**
- **compulsory wearing of surgical face masks inside the SGM venue at all times**
- **no distribution of corporate gifts and refreshments**

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

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PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing Novel Coronavirus (COVID-19) pandemic and recent requirements for prevention and control of its spread, the Company will implement the following precautionary measures at the SGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the SGM venue or be required to leave the SGM venue.
- (ii) Attendees must wear surgical face masks inside the SGM venue at all times, and maintain a safe distance between seats.
- (iii) No refreshments will be served, and there will be no corporate gifts.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the SGM venue or require any person to leave the SGM venue in order to ensure the safety of the attendees at the SGM.

In the interest of all stakeholders' health and safety and in line with recent guidelines for prevention and control of COVID-19, the Company reminds all Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising voting rights. As an alternative, by submitting proxy forms with voting instructions inserted, Shareholders may appoint the chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM instead of attending the SGM in person.

The proxy form for the SGM is enclosed with this circular. Alternatively, the proxy form can be downloaded from the "Investor Relations – Announcements & Circulars" section of the Company's website at www.binhaiinv.com. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks, brokers or custodians (as the case may be) to assist you in the appointment of proxy.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

If Shareholders choosing not to attend the SGM in person have any questions about the relevant resolutions, or about the Company or any matters which require communication with the Board, they are welcome to contact the Company as follows:

Email: prd@binhaiinv.com

Tel: (852) 2572 9228

Fax: (852) 2572 9283

If Shareholders have any questions relating to the SGM, please contact Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong as follows:

Hong Kong Registrars Limited

17M Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

Website: www.computershare.com/hk/contact

Tel: (852) 2862 8555

Fax: (852) 2865 0990

DEFINITIONS

Unless the context otherwise requires, the following terms in this circular shall have the meanings set out below:

“2018 TEDA Gas Supply Agreement”	the agreement dated 19 November 2018 entered into between TEDA and the Company in relation to the supply of natural gas to TEDA Group by the Group;
“2018 TEDA Gas Supply Connection Agreement”	the agreement dated 19 November 2018 entered into between TEDA and the Company in relation to the provision of Gas Supply Connection Services to TEDA Group by the Group;
“2020 Sinopec Gas Supply Agreement”	the agreement dated 9 November 2020 entered into between Tianjin Clean Energy and SBI in relation to the supply of natural gas to SBI by Tianjin Clean Energy, particulars of which are disclosed in the announcement of the Company dated 9 November 2020;
“2020 Sinopec Gas Transmission Agreement”	the agreement dated 9 November 2020 entered into between Tianjin Clean Energy and SBI in relation to the transmission of natural gas for SBI by Tianjin Clean Energy, particulars of which are disclosed in the announcement of the Company dated 9 November 2020;
“2020 Sinopec Long-term Gas Supply Agreement”	the agreement dated 23 April 2020 entered into between BHI Tianjin and Sinopec Gas to govern the on-going transactions for the supply of gas by the Sinopec Gas Group to the BHI Tianjin Group;
“associate”	has the meaning ascribed to it by the Listing Rules;
“BHI Tianjin”	Binhai Investment (Tianjin) Company Limited* (濱海投資(天津)有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
“BHI Tianjin Group”	BHI Tianjin and its subsidiaries;
“Board”	the board of Directors;
“Company”	Binhai Investment Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange (Stock Code: 2886);
“connected person”	has the meaning ascribed to it by the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it by the Listing Rules;

DEFINITIONS

“Director(s)”	the director(s) of the Company;
“Gas Connection Facilities Construction Engagement Agreement(s)”	agreement(s) to be entered into between the Group and TEDA Group for the services of construction of gas connection facilities at the premises of TEDA Group;
“Gas Supply Connection Services”	services to be provided by the Company to TEDA Group including the organisation and completion of design, construction, supervision and installation of all gas connection network and facilities from the gas supply pipelines to the gas connection point of TEDA Group including the maintenance, repair and renovation of the foregoing gas facilities, etc.;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	the board committee of the Company comprising all independent non-executive Directors, namely Mr. Ip Shing Hing, <i>J.P.</i> , Mr. Lau Siu Ki, Kevin and Professor Japhet Sebastian Law, established to advise and make recommendations to the Independent Shareholders in respect of the TEDA Transactions and the Sinopec Transactions;
“Independent Financial Adviser” or “Octal”	Octal Capital Limited, a licensed corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the TEDA Transactions and the Sinopec Transactions;
“Independent Shareholders”	the Shareholders who are not prohibited or required to abstain from voting under the Listing Rules to approve the relevant transactions at a general meeting of the Company;
“Latest Practicable Date”	30 November 2021, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

DEFINITIONS

“NDRC”	National Development and Reform Commission of the PRC;
“New Annual Caps”	the annual caps for the transactions contemplated under the 2020 Sinopec Long-term Gas Supply Agreement for each of the three years ending 31 December 2024;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SBI”	Sinopec Binhai Investment (Tianjin) Natural Gas Utilization Co., Ltd.* (中石化濱投(天津)天然氣利用有限公司), a company incorporated in the PRC with limited liability;
“SBI Group”	SBI and its subsidiaries and associates;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at Canvas 5, 26/F, The Park Lane Hong Kong Hotel, 310 Gloucester Road, Causeway Bay, Hong Kong at 10:00 a.m. on Thursday, 23 December 2021 to approve, among other things, the TEDA Transactions and the Sinopec Transactions;
“SGM Notice”	the notice convening the SGM as set out at pages 112 to 115 of this circular;
“Shareholder(s)”	holder(s) of Shares;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company;
“Sinopec Corp”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the main board of the Stock Exchange (Stock Code: 386);
“Sinopec Gas”	China Petroleum & Chemical Corporation Natural Gas Branch Company* (中國石油化工股份有限公司天然氣分公司), a branch company of Sinopec Corp;
“Sinopec Gas Group”	Sinopec Gas and its subsidiaries and associates;

DEFINITIONS

“Sinopec Gas Supply Agreement”	the agreement dated 8 November 2021 entered into between BHI Tianjin, Sinopec Gas, Sinopec Lubricant Binhai and SBI in relation to the supply of natural gas to Sinopec Group by BHI Tianjin Group;
“Sinopec Gas Supply Annual Caps”	the annual caps for the transactions under the Sinopec Gas Supply Agreement for each of the three years ending 31 December 2024;
“Sinopec Gas Transmission Agreement”	the agreement dated 8 November 2021 entered into between BHI Tianjin, Sinopec Gas and SBI for the provision of natural gas transmission services by BHI Tianjin Group to Sinopec Gas Group and SBI Group;
“Sinopec Gas Transmission Annual Caps”	the annual caps for the transactions under the Sinopec Gas Transmission Agreement for each of the three years ending 31 December 2024;
“Sinopec Group”	Sinopec Gas, Sinopec Lubricant Binhai and SBI and their respective subsidiaries and associates;
“Sinopec Lubricant”	Sinopec Lubricant Company Limited (中國石化潤滑油有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Sinopec Corp;
“Sinopec Lubricant Binhai”	Sinopec Lubricant Company Limited Binhai Branch Company* (中國石化潤滑油有限公司濱海分公司), a branch company of Sinopec Lubricant;
“Sinopec Proposed Annual Caps”	the Sinopec Gas Supply Annual Caps and the Sinopec Gas Transmission Annual Caps;
“Sinopec Transactions”	collectively (i) the New Annual Caps; (ii) the Sinopec Gas Supply Agreement and transactions contemplated thereunder and the Sinopec Gas Supply Annual Caps; and (iii) the Sinopec Gas Transmission Agreement and transactions contemplated thereunder and the Sinopec Gas Transmission Annual Caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it by the Listing Rules;
“TDRC”	Tianjin Development and Reform Commission;

DEFINITIONS

“TEDA”	天津泰達投資控股有限公司(Tianjin TEDA Investment Holding Co., Ltd.*), a state-owned enterprise established in the PRC, the controlling shareholder of the Company indirectly interested in approximately 39.50% of the total Shares in issue as at the Latest Practicable Date;
“TEDA Gas Supply Agreement”	the agreement dated 8 November 2021 entered into between TEDA and the Company in relation to the supply of natural gas to TEDA Group by the Group;
“TEDA Gas Supply Annual Caps”	the annual caps for transactions contemplated under the TEDA Gas Supply Agreement for each of the three years ending 31 December 2024;
“TEDA Gas Supply Connection Agreement”	the agreement dated 8 November 2021 entered into between TEDA and the Company in relation to the provision of Gas Supply Connection Services to TEDA Group by the Group;
“TEDA Gas Supply Connection Annual Caps”	the annual caps for transactions contemplated under the TEDA Gas Supply Connection Agreement for each of the three years ending 31 December 2024;
“TEDA Group”	TEDA and its subsidiaries and associates;
“TEDA Proposed Annual Caps”	the TEDA Gas Supply Annual Caps and the TEDA Gas Supply Connection Annual Caps;
“TEDA Transactions”	collectively (i) the TEDA Gas Supply Agreement and transactions contemplated thereunder and the TEDA Gas Supply Annual Caps; and (ii) the TEDA Gas Supply Connection Agreement and transactions contemplated thereunder and the TEDA Gas Supply Connection Annual Caps;
“Tianjin Binhai New Area DRC”	Tianjin Binhai New Area Development and Reform Commission;
“Tianjin Clean Energy”	Tianjin TEDA Binhai Clean Energy Group Co., Ltd.* (天津泰達濱海清潔能源集團有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
“%”	per cent

**For identification purposes only*

LETTER FROM THE BOARD



濱海投資有限公司
BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2886)

Executive Directors:

Mr. Wang Zhiyong (*Chairman*)
Mr. Zuo Zhi Min (*Vice Chairman*)
Mr. Gao Liang (*General Manager*)

Non-executive Directors:

Mr. Wang Gang
Mr. Shen Hong Liang
Mr. Yu Ke Xiang

Independent non-executive Directors:

Mr. Ip Shing Hing, *J.P.*
Mr. Lau Siu Ki, Kevin
Professor Japhet Sebastian Law

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:

Suites 3205-07, 32/F
Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

6 December 2021

To the Shareholders

Dear Sir or Madam,

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH TEDA
AND
(2) CONTINUING CONNECTED TRANSACTIONS WITH ASSOCIATES OF
CHINA PETROLEUM & CHEMICAL CORPORATION**

INTRODUCTION

References are made to the announcements of the Company both dated 8 November 2021 in relation to the renewal of continuing connected transactions with TEDA and the continuing connected transactions with associates of China Petroleum & Chemical Corporation respectively.

LETTER FROM THE BOARD

The main purposes of this circular are to provide you with:

- (i) a letter of the Board containing further details of the TEDA Transactions and the Sinopec Transactions;
 - (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the TEDA Transactions and the Sinopec Transactions;
 - (iii) a letter of recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the TEDA Transactions and the Sinopec Transactions;
 - (iv) the notice convening the SGM, at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the TEDA Transactions and the Sinopec Transactions; and
 - (v) other information as required under the Listing Rules.
- (1) RENEWAL OF MASTER AGREEMENTS FOR CONTINUING CONNECTED TRANSACTIONS WITH TEDA**

As the 2018 TEDA Gas Supply Agreement and the 2018 TEDA Gas Supply Connection Agreement will respectively expire on 31 December 2021, and it is expected that the Group will continue to carry out similar transactions with TEDA Group, the Company has entered into (i) the TEDA Gas Supply Agreement with TEDA for a term from 1 January 2022 to 31 December 2024, under which the Group will supply natural gas to TEDA Group pursuant to agreements to be entered into from time to time; and (ii) the TEDA Gas Supply Connection Agreement with TEDA for a term from 1 January 2022 to 31 December 2024, under which the Group will provide Gas Supply Connection Services to TEDA Group pursuant to the Gas Connection Facilities Construction Engagement Agreements to be entered into from time to time.

(A) TEDA Gas Supply Agreement

The Company entered into the TEDA Gas Supply Agreement with TEDA with particulars as follows:

Date

8 November 2021

The parties

- (a) TEDA
- (b) the Company

LETTER FROM THE BOARD

Nature of the transactions

The Group will supply natural gas to TEDA Group pursuant to the individual agreements for the supply of natural gas to be entered into from time to time.

Term

From 1 January 2022 to 31 December 2024 (both days inclusive)

Conditions precedent to the taking effect of the TEDA Gas Supply Agreement

The TEDA Gas Supply Agreement will take effect subject to the approval of the TEDA Gas Supply Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Annual Caps) by the Independent Shareholders in accordance with requirements under the Listing Rules.

Consideration

The payment for gas supply shall be settled on a monthly basis according to the amount of gas supplied by the Group.

Manner of payment

The manner of payment is governed by the individual agreements for the supply of natural gas, to be entered into between subsidiaries of the Group on the one hand, and TEDA or its subsidiaries or associates on the other hand, from time to time. The payment for gas supply is generally in the form of prepayment and will be settled on a monthly basis. To ensure that its customers will honor their payment obligations, the Group has been introducing an advance payment arrangement for supply of natural gas to its customers, under which the customers are required to make advance payment with reference to the monthly maximum gas volume and the natural gas consumption plan.

Invoices will be issued to each customer pursuant to the amount of natural gas consumed for the customer's monthly settlement. The advance payment will be treated as prepayment of natural gas sale price, from which the actual payment for gas supply due from the customer will be deducted. If the advance payment is used up, gas supply to the customer will cease. The Group will send a reminder to the customer when the advance payment is nearly used up.

The Group is still in the process of transitioning into the advance payment arrangement with all of its customers and such payment arrangement has been made compulsory for new customers of the Group. Some of the existing customers of the Group for natural gas have not yet accepted such arrangement. Among the existing customers of the Group being members of the TEDA Group, only one existing customer has not yet adopted the advance payment arrangement and paid gas charges on a monthly basis according to the amount of gas consumed in the preceding month. The terms of settlement of such customer are no less favourable than those of the independent third party customers who have not adopted the advance payment arrangement and such customer has maintained due payment of its gas charges without default.

LETTER FROM THE BOARD

The terms of settlement for the transactions pursuant to the TEDA Gas Supply Agreement based on the above arrangement which are also applicable to transactions with other independent third party customers are no less favourable to the Group than the terms of settlement for the supply of gas by the Group to independent third parties.

Basis of consideration

The consideration will be determined based on the volume of gas supplied by the Group to TEDA Group per month according to the meter readings and the price for the supply of natural gas.

The price for the supply of natural gas under the TEDA Gas Supply Agreement will be determined based on arm's length negotiations between the relevant parties, with reference to (i) the notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by NDRC from time to time; (ii) the notice on adjustments to the price of natural gas consumed by non-residential users as stipulated by TDRC and Tianjin Binhai New Area DRC from time to time; and (iii) the price of natural gas purchased by the Group from the upstream natural gas suppliers, which is determined with reference to the above regulatory notices and the volume of natural gas sourced by the Group.

The Group and TEDA Group strictly comply with the relevant pricing provisions in the regulatory notices issued by the PRC government authorities from time to time. The management of the relevant subsidiary of the Group will also take into account the market competition in determining the price for the supply of natural gas by the Group. Where market competition is present at the relevant location, discounts may be provided to customers with bulk purchases, as permitted by the relevant law and regulations. In the absence of market competition at the relevant location in relation to the supply of natural gas, the Group will adhere to the exact relevant price as stipulated by the PRC government authorities.

LETTER FROM THE BOARD

The latest regulatory notices in respect of the transactions contemplated under the TEDA Gas Supply Agreement include:

Name of notice	Relevant pricing provision
1. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the City Development and Reform Commission” (Jin Development and Reform Price Zong 2021 No. 152)* (《市發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津發改價綜[2021]152號)) issued by TDRC on 27 May 2021	With effect from 1 June 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter, and the price of natural gas for concentration on heat supply is adjusted to RMB2.33 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.
2. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the Area Development and Reform Commission” (Jin Bin Development and Reform Price Guan Fa 2021 No. 5)* (《區發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津濱發改價管發[2021]5號)) issued by Tianjin Binhai New Area DRC on 28 May 2021	With effect from 1 June 2021 to 31 October 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.

If there is an adjustment to the regulatory notices of the PRC government authorities on natural gas sale price, the price for the supply of natural gas will be adjusted correspondingly. The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities.

The individual agreements for the supply of natural gas to be entered into by the Group with TEDA Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas to independent third parties.

LETTER FROM THE BOARD

TEDA Gas Supply Annual Caps

The TEDA Gas Supply Annual Caps for the three years ending 31 December 2024 are set out as follows:

TEDA Gas Supply Annual Caps amounts (in RMB)

For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
179,957,000	378,879,000	508,773,000

Basis of the TEDA Gas Supply Annual Caps

The TEDA Gas Supply Annual Caps were determined after taking into account the following:

1. the historical transaction amounts of natural gas supplied by the Group to TEDA Group, which are set out as follows:

Approximate historical transaction amounts (in RMB)

For the year ended 31 December 2019	For the year ended 31 December 2020	For the period from 1 January 2021 to 31 October 2021
336,340,000	219,073,100	58,789,000 ^{Note}

Note: For the purpose of calculating the utilisation rate, the annualised historical transaction amount for the period from 1 January 2021 to 31 October 2021 was approximately RMB70.5 million.

The existing annual caps under the 2018 TEDA Gas Supply Agreement for three years ending 31 December 2021 are RMB499,495,000, RMB537,234,000 and RMB550,270,000 respectively and the utilisation rates of the annual caps are approximately 67.3%, 40.8% and 12.8% respectively.

2. estimates on the sale prices of natural gas to be supplied by the Group to TEDA Group based on (a) the benchmark prices of natural gas consumed by non-residential users as stipulated in the regulatory notices issued by the PRC government authorities; and (b) the prevailing sale prices of natural gas supplied by the Group to its non-residential customers; and

LETTER FROM THE BOARD

3. estimates on the demand for natural gas by TEDA Group based on the following:
- (a) the expected increase in demand for natural gas supplied by the Group to TEDA Group for eighteen ongoing projects of subsidiaries and associates of TEDA by applying an annual growth rate of approximately 2%-7% on the actual volumes of natural gas supplied by the Group to those existing projects;
 - (b) the expected increase in volume of natural gas supplied by the Group to TEDA Group for upcoming projects according to the capacity of gas equipment to be constructed for those projects. With reference to the expansion plan of the subsidiaries and associates of TEDA from 2022 to 2024, three projects are expected to commence the consumption of natural gas in November 2022, one project is expected to commence the consumption of natural gas in January 2023 and one project is expected to commence the consumption of natural gas in November 2024. Furthermore, one subsidiary of TEDA anticipates an expansion of the capacity of its gas equipment in November 2022 and two subsidiaries of TEDA also anticipate an expansion of the capacity of their gas equipment in 2024;
 - (c) the potential restoration of the Group as one of the core natural gas suppliers to a key customer of the Group in Tianjin, being a subsidiary of TEDA, which had accessed another new source of natural gas as its alternative core natural gas supplier during 2020 under the competitive natural gas supply market. Had such subsidiary of TEDA not changed its core natural gas supplier, the Directors estimated the transaction amount with this key customer would account for 51.3% of the annual cap for the year ending 31 December 2021. The Group has since re-negotiated with this key customer to resume stable supply of natural gas in the future and to which this customer has expressed interest; and
 - (d) future trend of the demand for natural gas, as indicated in China Natural Gas Development Report (2021) issued by the National Energy Administration, the consumption of natural gas is expected to increase to approximately 450 billion in 2025, representing a compound annual growth rate of approximately 7.1%, which is in line with the annual growth rate applied by the Directors to estimate the increase in demand for natural gas supplied by the Group to TEDA Group's ongoing projects.

The decreases in the historical transaction amounts since 2020 were mainly due to the (i) outbreak of the COVID-19 pandemic during 2020 and 2021 which led to a suspension of construction projects and a reduction in the demand of natural gas; (ii) five subsidiaries or associates of TEDA Group were no longer connected persons of the Company due to changes in equity interest held by TEDA Group during 2020, therefore their transaction amounts were not included

LETTER FROM THE BOARD

in the historical transaction amounts for the year ending 31 December 2021; and (iii) reduction of natural gas supply to a key customer referred to in paragraph (c) above.

Despite the decreases in the historical transaction amount since 2020, the transaction amounts for the three years ending 31 December 2024 are expected to increase given the potential significant increase in demands from customers being members of TEDA Group as described in paragraphs (a) to (d) above. The Board considers that the above details and assumptions in deriving the expected demand for natural gas supplied by the Group to TEDA Group which in turn forms the basis of the TEDA Gas Supply Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Reasons for and benefits of entering into the TEDA Gas Supply Agreement

The Binhai New Area of Tianjin is an important strategic region for the development of the Group's business. Some of the Group's largest customers such as Tianjin TEDA Gas Co., Ltd* (天津泰達燃氣有限責任公司) and Tianjin Eco-city TEDA Ocean Technology Development Company Limited* (天津生態城泰達海洋技術開發有限公司), which are associates of TEDA to which the Group supplies natural gas, are based in the Binhai New Area of Tianjin. The Binhai New Area of Tianjin is a national strategic development region, comprising 21 street towns and 5 national development areas, namely Tianjin Economic and Technological Development Area, Tianjin Port Free Trade Area, Tianjin Binhai Hi-tech Industrial Development Area, Tianjin Dongjiang Port Free Trade Area and Sino-Singapore Tianjin Eco-City.

A number of key projects featuring large aircrafts, large rockets, large refineries and large vehicles have gathered in the Binhai New Area, leading to the formation of eight main industries, including aviation and aerospace, automobile and equipment manufacturing, petrochemicals, electronic communications, grain oil and light textile, biomedicine, new energy and new materials. Accordingly, there is a strong demand for the application of natural gas for economic and social development.

TEDA is a large scale state-owned conglomerate and is one of the most significant enterprises in the construction of the Binhai New Area of Tianjin. TEDA is also the main developer of various functional zones within the Binhai New Area of Tianjin. Moreover, TEDA has a large number of subsidiaries engaged in various industries in the Binhai New Area of Tianjin, such as regional development and property development etc. Therefore, the entering into of the TEDA Gas Supply Agreement is beneficial to the Group for its business development and market expansion in the strategic region of Binhai New Area of Tianjin, which will in turn increase the Group's sales revenue and profits. Further, such transactions will also facilitate the Group's collaboration with its controlling shareholder, TEDA, which is conducive to promoting their complementary strengths in the industries and the joint development of TEDA and the Group.

LETTER FROM THE BOARD

(B) TEDA Gas Supply Connection Agreement

The Company entered into the TEDA Gas Supply Connection Agreement with TEDA with particulars as follows:

Date

8 November 2021

The parties

- (a) TEDA
- (b) the Company

Nature of the transactions

The Group will provide Gas Supply Connection Services to TEDA Group pursuant to the Gas Connection Facilities Construction Engagement Agreements to be entered into from time to time.

Term

From 1 January 2022 to 31 December 2024 (both days inclusive)

Condition precedent to the taking effect of the TEDA Gas Supply Connection Agreement

The TEDA Gas Supply Connection Agreement will take effect subject to the approval of the TEDA Gas Supply Connection Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Connection Annual Caps) by the Independent Shareholders in accordance with requirements under the Listing Rules.

Consideration

The consideration for the Gas Supply Connection Services to be provided by the Group will be the amount as stated in each of the Gas Connection Facilities Construction Engagement Agreements to be entered into from time to time, for the specific Gas Supply Connection Services to be provided thereunder.

LETTER FROM THE BOARD

Manner of payment

The manner of payment is governed by the Gas Connection Facilities Construction Engagement Agreements to be entered into between the Group and TEDA Group from time to time. Pursuant to the Gas Connection Facilities Construction Engagement Agreements, generally the consideration for the Gas Supply Connection Services is either to be satisfied in full prior to commencement of construction, or by an advance payment of 50% of the total consideration within 7 days from the date of the Gas Connection Facilities Construction Engagement Agreement and payment of the remaining balance within 7 days after the completion of the project.

Basis of consideration

The price for the provision of Gas Supply Connection Services to TEDA Group will be determined based on arm's length negotiations between the relevant parties, with reference to (i) the amount of construction work to be carried out, which includes the fees for sub-contracting the design, construction, supervision, purchasing of parts, equipment and materials for the construction and the maintenance of the facilities constructed; and (ii) the daily maximum gas consumption volume for the gas connection facilities to be constructed.

The management of the relevant subsidiary of the Group will also make reference to the relevant comparable prices for similar gas supply connection services provided by the Group to two independent third parties which are selected pursuant to their gas consumption, region and difficulty of specific construction work similar to those of connected parties to ensure that prices charged to TEDA Group are not lower than those charged to independent third party customers. In the event there is no quotation or reference transaction to independent third parties available, the Group will ensure that the actual prices charged to TEDA Group fall within the Group's range of profit margin.

In line with general market practice, higher unit gas supply connection fee will be charged to users with larger daily maximum gas consumption volume as those projects usually involve larger construction scale and more safety and maintenance considerations and thus higher construction costs and maintenance costs. The management will also evaluate costs components when determining the price for Gas Supply Connection Services including (i) length of the pipe network; (ii) pipe diameter, (iii) gas equipment, and (iv) difficulty of construction at the site. Those cost components will be considered with reference to prevailing market rates. After the estimated cost is evaluated, the management would decide the sales prices that would ensure the profit margin falls within the pre-determined range by the Company.

The profit margin of the Group for Gas Supply Connection Services was normally between 50%-70% in 2019-2021. With reference to the historical range of profit margin, the profit margin is estimated to be between 50%-70% for 2022-2024.

LETTER FROM THE BOARD

The Gas Connection Facilities Construction Engagement Agreements to be entered into by the Group with TEDA Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for supply of the same services to independent third parties.

TEDA Gas Supply Connection Annual Caps

The TEDA Gas Supply Connection Annual Caps for the three years ending 31 December 2024 are set out as follows:

TEDA Gas Supply Connection Annual Caps amounts (in RMB)

For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
29,252,000	14,253,000	34,640,000

Basis of the TEDA Gas Supply Connection Annual Caps

The TEDA Gas Supply Connection Annual Caps were determined after taking into account the following:

1. the historical transaction amounts of Gas Supply Connection Services provided by the Group to TEDA Group, which are set out as follows:

Approximate historical transaction amounts (in RMB)

For the year ended 31 December 2019	For the year ended 31 December 2020	For the period from 1 January 2021 to 31 October 2021
7,643,000	9,311,100	10,456,000 ^{Note}

Note: For the purpose of calculating the utilisation rate, the annualised historical transaction amount for the period from 1 January 2021 to 31 October 2021 was approximately RMB12.5 million.

The existing annual caps under the 2018 TEDA Gas Supply Connection Agreement for three years ending 31 December 2021 are RMB22,690,000, RMB30,302,000 and RMB27,776,000 respectively and the utilisation rates of the annual caps are approximately 33.7%, 30.7% and 45.2% respectively. The low utilisation rates for the two years ended 2019 and 2020 were mainly due to the outbreak of COVID-19 pandemic, leading to the postponement of construction projects of TEDA Group. As a result of the pandemic prevention and control in 2021, the projects of TEDA Group have gradually resumed, leading to an increase in the annualised utilisation rate to approximately 45.2% for the ten months ended 31 October 2021.

2. the transaction amounts under the Gas Connection Facilities Construction Engagement Agreements entered into between the subsidiaries of the Group and TEDA Group, which are yet to be carried out in full of approximately RMB 11.5 million in aggregate, which will be recognised for the three years ending 31 December 2024; and

LETTER FROM THE BOARD

3. estimates on the demands for Gas Supply Connection Services based on information obtained from negotiations with TEDA Group, which gives rise to the estimated annual transaction amounts of approximately RMB29.3 million, RMB14.3 million and RMB34.6 million for the three years ending 31 December 2024 (representing 100% of the TEDA Gas Supply Connection Annual Caps). The estimates on the demand are based on the expected development progress and schedule of the relevant projects of TEDA Group as follows:
- (1) the estimated gross floor area requiring Gas Supply Connection Services for construction work (being approximately 305,848m², 283,483 m² and 618,762m² for the three years ending 31 December 2024, respectively);
 - (2) the estimated number of residential units (which is derived from the estimated gross floor area and other information provided to the Group during negotiation) requiring Gas Supply Connection Services of approximately 2,623, 2,470 and 5,893 for the three years ending 31 December 2024 respectively; and
 - (3) the estimated number of non-residential units (which is derived from the estimated gross floor area and other information provided to the Group during negotiation) requiring Gas Supply Connection Services of approximately 4, 3 and 12 for the three years ending 31 December 2024 respectively.

The aggregate size of the estimated gross floor area and the number of residential and non-residential units requiring Gas Supply Connection Services are directly proportional to the amount of fees for such services.

The Board considers that the above details and assumptions in deriving the expected demand for Gas Supply Connection Services which in turn forms the basis of the TEDA Gas Supply Connection Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Reasons for and benefits of entering into the TEDA Gas Supply Connection Agreement

The Company considers that the entering into of the TEDA Gas Supply Connection Agreement with TEDA is beneficial to both parties in responding positively to the 14th Five-Year call for dual carbon goal, practicing green development principles, promotion of safe and efficient use of clean energy, and will also be conducive to increasing the revenue and profit of the Group.

LETTER FROM THE BOARD

(2) CONTINUING CONNECTED TRANSACTIONS WITH ASSOCIATES OF CHINA PETROLEUM & CHEMICAL CORPORATION

(A) Setting New Annual Caps under 2020 Sinopec Long-term Gas Supply Agreement

The 2020 Sinopec Long-term Gas Supply Agreement and the existing annual caps for the period from 1 June 2020 to 31 December 2020 and for the year ending 31 December 2021 were approved by the Independent Shareholders. As the 2020 Sinopec Long-term Gas Supply Agreement is effective until 31 December 2039, new annual caps for three years ending 31 December 2024 are proposed to be set to cover the transaction amounts to be incurred for the purchase of natural gas by the BHI Tianjin Group from the Sinopec Gas Group under the 2020 Sinopec Long-term Gas Supply Agreement.

The existing annual caps under the 2020 Sinopec Long-term Gas Supply Agreement for the period from 1 June 2020 to 31 December 2020 and for the year ending 31 December 2021 are RMB544,113,000 and RMB1,339,181,000 respectively. Set out below are the New Annual Caps for three years ending 31 December 2024:

New Annual Caps amounts (in RMB)

For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
1,890,343,000	2,391,817,000	3,806,790,000

The New Annual Caps are determined with reference to the following factors:

- the historical transaction amounts of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group, which are set out as follows:

Approximate historical transaction amounts (in RMB)

For the period from 1 June 2020 to 31 December 2020	For the period from 1 January 2021 to 31 October 2021
225,780,910	613,948,000 ^{Note}

Note: For the purpose of calculating the utilisation rate, the annualised historical transaction amount for the period from 1 January 2021 to 31 October 2021 was approximately RMB736.7 million.

The existing annual caps under the 2020 Sinopec Long-term Gas Supply Agreement for the period from 1 June 2020 to 31 December 2020 and for the year ending 31 December 2021 are RMB544,113,000 and RMB1,339,181,000 respectively and the utilisation rates of the annual caps are approximately 41.5% and 55.0% respectively.

LETTER FROM THE BOARD

2. estimates on the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the following:

- (a) the benchmark citygate price set out in the following regulatory notice, being the latest regulatory notice on adjustments to the citygate prices of natural gas issued by the NDRC;

Name of notice

Relevant pricing provision

“Notice on Adjusting the Benchmark Citygate Prices of Natural Gas of the National Development and Reform Commission” (National Development and Reform Price 2019 No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格[2019]562號)) issued by NDRC on 27 March 2019

With effect from 1 April 2019, the benchmark citygate price in Tianjin is reduced to RMB1.86 per cubic meter.

- (b) the sale price of natural gas to be sourced from the Sinopec Gas Group is mainly subject to a mark-up in the range up to 20% above the benchmark citygate price, according to the following regulatory notices:

Name of notice

Relevant pricing provision

1. “Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage and Further Accelerating the Market-oriented Price Reform of the National Development and Reform Commission” (National Development and Reform Price 2015 No. 2688)* (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格[2015]2688號)) issued by NDRC on 18 November 2015

(i) With effect from 20 November 2015, the benchmark citygate prices for non-residential users in Tianjin is reduced to RMB2 per cubic meter.

(ii) With effect from 20 November 2016, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.4 per cubic meter

LETTER FROM THE BOARD

Name of notice	Relevant pricing provision
2. “Notice on Straightening out the Citygate Prices of Natural Gas for Residential Usage of the National Development and Reform Commission” (National Development and Reform Price Regulation 2018 No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)) issued by NDRC on 25 May 2018	(i) With effect from 10 June 2018, the natural gas price for residential users would be managed with the use of benchmark citygate price in lieu of maximum citygate price. The benchmark citygate price in Tianjin is reduced to RMB1.88 per cubic meter. (ii) With effect from 10 June 2019, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.256 per cubic meter. (iii) Seasonal price difference policy is introduced to encourage market-based transactions, whereby ceiling citygate price can be increased as appropriate (i.e. by more than 20% of the benchmark citygate price) in seasons with high natural gas consumption such as winter.
3. estimates on the demand for natural gas by the BHI Tianjin Group based on the following factors:	
(a) the historical natural gas sales volume by the BHI Tianjin Group to downstream natural gas users;	
(b) the information obtained from negotiations with key downstream natural gas users (including the estimated volume of natural gas to be required by such users); and	
(c) the potential expansion of the PRC’s natural gas market in these three years.	

The terms and conditions of the 2020 Sinopec Long-term Gas Supply Agreement remain unchanged with the setting of the New Annual Caps.

LETTER FROM THE BOARD

(B) Entering into of the Master Agreements for Natural Gas Supply to Sinopec Group and Transmission of Natural Gas to Sinopec Gas Group and SBI Group

On 8 November 2021, BHI Tianjin has entered into (i) the Sinopec Gas Supply Agreement with Sinopec Gas, Sinopec Lubricant Binhai and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will supply natural gas to Sinopec Group pursuant to agreements to be entered into from time to time; and (ii) the Sinopec Gas Transmission Agreement with Sinopec Gas and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will provide natural gas transmission services to Sinopec Gas Group and SBI Group pursuant to the agreements to be entered into from time to time.

(I) *Sinopec Gas Supply Agreement*

Date

8 November 2021

The parties

- (a) BHI Tianjin
- (b) Sinopec Gas
- (c) Sinopec Lubricant Binhai
- (d) SBI

Nature of the transactions

BHI Tianjin Group will supply natural gas to Sinopec Group pursuant to the individual agreements for the supply of natural gas to be entered into from time to time.

Term

From 1 January 2022 to 31 December 2024 (both days inclusive)

Condition precedent to the taking effect of the Sinopec Gas Supply Agreement

The Sinopec Gas Supply Agreement will take effect subject to the approval of the Sinopec Gas Supply Agreement and transactions contemplated thereunder (including the Sinopec Gas Supply Annual Caps) by the Independent Shareholders in accordance with requirements under the Listing Rules.

LETTER FROM THE BOARD

Consideration

The payment for gas supply shall be settled on a monthly basis according to the amount of gas supplied by BHI Tianjin Group.

Manner of payment

The manner of payment is governed by the individual agreements for the supply of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas, Sinopec Lubricant Binhai or SBI or their respective subsidiaries or associates on the other hand, from time to time. The payment for gas supply is in the form of prepayment. BHI Tianjin Group will issue invoice to Sinopec Group according to meter readings of gas measurement instruments recorded by parties to the individual agreements for the supply of natural gas at the end of each month. To ensure that its customers will honor their payment obligations, the Group has been introducing an advance payment arrangement for supply of natural gas to all customers. Individual agreements for the supply of natural gas entered into pursuant to the Sinopec Gas Supply Agreement will specify that the customers have to make advance payments with reference to the monthly maximum gas volume and the natural gas consumption plan. The advance payment will be treated as prepayment of natural gas sale price, from which the actual payment for gas supply due from the customer will be deducted. If the prepayment is used up, gas supply to the customer will cease. The Group will send a reminder to the customer when the advance payment is nearly used up.

The terms of settlement for the transactions pursuant to the Sinopec Gas Supply Agreement based on the above arrangement which are also applicable to transactions with other independent third party customers are no less favourable to the Group than the terms of settlement for the supply of gas by the Group to independent third parties.

Basis of consideration

The consideration will be determined based on the volume of gas supplied by BHI Tianjin Group to Sinopec Group per month according to the meter readings and the price for the supply of natural gas.

The price for the supply of natural gas under the Sinopec Gas Supply Agreement will be determined based on arm's length negotiations between the relevant parties, with reference to (i) the regulatory notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by the NDRC from time to time; (ii) the regulatory notice on adjustments to the price of natural gas consumed by non-residential users as stipulated by the PRC government authorities from time to time; and (iii) the price

LETTER FROM THE BOARD

of natural gas purchased by the Group from the upstream natural gas suppliers, which is determined with reference to the above regulatory notices and the volume of natural gas sourced by BHI Tianjin Group.

The BHI Tianjin Group and Sinopec Group strictly comply with the relevant pricing provisions in the regulatory notices issued by the PRC government authorities from time to time. The management of the relevant subsidiaries of the BHI Tianjin Group will also take into account the market competition in determining the price for the supply of natural gas by the BHI Tianjin Group. Where market competition is present at the relevant location, discounts may be provided to customers with bulk purchases, as permitted by the relevant laws and regulations. In the absence of market competition at the relevant location in relation to the supply of natural gas, the Group will adhere to the exact relevant price as stipulated by the Tianjin Municipal Government.

The latest regulatory notices in respect of the transactions contemplated under the Sinopec Gas Supply Agreement include:

Name of notice	Relevant pricing provision
1. “Notice on Adjusting the Sale Price of Pipeline Natural Gas for Non-residential Usage by Stage from the Development and Reform Bureau of Deqing Province” (De Development and Reform Fa 2021 No. 12)* (《德清縣發展和改革局關於階段性調整非居民用管道天然氣銷售價格的通知》(德發改發[2021]12號)) issued by the Development and Reform Bureau of Deqing Province on 25 April 2021	For the period from 1 April 2021 to 31 October 2021, the highest sale price of natural gas for non-residential usage in Deqing province is adjusted to RMB2.96 per cubic meter, and each gas company is allowed to negotiate the final price within the range not exceeding the highest sale price according to the actual gas usage condition of the corporate user.
2. “Notice on the Sale Price of Pipeline Natural Gas for Non-residential Usage from the Development and Reform Commission of Tangshan City”* (《唐山市發展和改革委員會關於非居民管道天然氣銷售價格的通知》) issued by the Development and Reform Commission of Tangshan City on 19 August 2021	Each gas operation enterprise may add RMB0.88 per cubic meter on top of the procurement cost for natural gas for non-residential usage as the sale price

LETTER FROM THE BOARD

Name of notice	Relevant pricing provision
3. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the City Development and Reform Commission” (Jin Development and Reform Price Zong 2021 No. 152)* (《市發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津發改價綜[2021]152號)) issued by TDRC on 27 May 2021	With effect from 1 June 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter, and the price of natural gas for concentration on heat supply is adjusted to RMB2.33 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.
4. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the Area Development and Reform Commission” (Jin Bin Development and Reform Price Guan Fa 2021 No. 5)* (《區發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津濱發改價管發[2021]5號)) issued by Tianjin Binhai New Area DRC on 28 May 2021	With effect from 1 June 2021 to 31 October 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.

If there is an adjustment to the regulatory notices of the PRC government authorities on natural gas sale price, the price for the supply of natural gas will be adjusted correspondingly. The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities.

The individual agreements for the supply of natural gas to be entered into by BHI Tianjin Group with Sinopec Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas to independent third parties.

LETTER FROM THE BOARD

Sinopec Gas Supply Annual Caps

The Sinopec Gas Supply Annual Caps for the three years ending 31 December 2024 are set out as follows:

Sinopec Gas Supply Annual Caps amounts (in RMB) ^(Note)

For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
85,117,000	82,049,000	82,152,000

Note: While SBI is not a subsidiary of Sinopec Gas, the Sinopec Gas Supply Annual Caps do not include any transaction amount between BHI Tianjin Group and the associates of SBI which are not its subsidiaries.

Basis of the Sinopec Gas Supply Annual Caps

The Sinopec Gas Supply Annual Caps were determined after taking into account the following:

1. the historical transaction amounts of natural gas supplied by Tianjin Clean Energy to SBI under the 2020 Sinopec Gas Supply Agreement, which are set out as follows:

Approximate historical transaction amounts (in RMB)

For the period from 9 November 2020 to 31 December 2020	For the period from 1 January 2021 to 31 October 2021
8,277,750	16,616,000 ^{Note}

Note: For the purpose of calculating the utilisation rate, the annualised historical transaction amount for the period from 1 January 2021 to 31 October 2021 was approximately RMB19.9 million.

The existing annual caps under the 2020 Sinopec Gas Supply Agreement for the period from 9 November 2020 to 31 December 2020 and for the year ending 31 December 2021 are RMB8,583,540 and RMB51,718,520 respectively and the utilisation rates of the annual caps are approximately 96.4% and 38.6% respectively.

LETTER FROM THE BOARD

2. estimates on the sale prices of natural gas to be supplied by BHI Tianjin Group to Sinopec Group with reference to the following:
 - (a) the benchmark prices of natural gas consumed by non-residential users as stipulated in the regulatory notices issued by the PRC government authorities; and
 - (b) the prevailing sale prices of natural gas supplied by the Group to its non-residential customers.

3. estimates on the demand for natural gas by Sinopec Group based on the following factors:
 - (a) the procurement and cooperation plan agreed between Sinopec Group and the Group; and
 - (b) the business development of Sinopec Group in Tianjin, Tangshan and Deqing.

Reasons for and benefits of entering into the Sinopec Gas Supply Agreement

Sinopec Corp is a large scale state-owned conglomerate with its subsidiaries spreading across the PRC. The Group will include such subsidiaries of Sinopec Corp into the list of potential customers in the course of expansion of its principal business. Therefore, the transactions contemplated under the Sinopec Gas Supply Agreement can increase the natural gas sales volume and the operating sales profit of the Group. Further, such transactions will also facilitate the Group's collaboration with its strategic resource-based shareholder, Sinopec Corp, which is conducive to promoting their complementary strengths in the industries and achieving a win-win situation.

Members of Sinopec Group that supply natural gas to BHI Tianjin Group under the 2020 Sinopec Long-term Gas Supply Agreement are from the natural gas segment of Sinopec Corp (which provides sources of natural gas). As disclosed in the circular of the Company dated 12 June 2020, by entering into the 2020 Sinopec Long-term Gas Supply Agreement, the Group can obtain a stable natural gas supply at more favourable prices, thus bolstering the competitiveness of the Group in the natural gas market and enhancing the development of the Group's natural gas business. It also enhances the swapping and mutual supply and guarantee abilities of resources, increases the efficiency of use of facilities and resources allocation of the Group, and creates development opportunities for the Group's subsidiaries that operate outside Tianjin. The Group expects that the continuous focus on the sourcing of natural gas from the natural gas segment of

LETTER FROM THE BOARD

Sinopec Corp by BHI Tianjin Group will allow the Group to intensify the resource synergy advantages brought by the strategic resource-based shareholder, which will in turn optimise the structure of the Group's upper stream natural gas sources and will reduce the procurement cost of the Group's principal business.

On the other hand, members of Sinopec Group that purchase natural gas from BHI Tianjin Group under the Sinopec Gas Supply Agreement are users of natural gas. The BHI Tianjin Group has developed comprehensive pipeline networks over the years, which should be used to facilitate stable and reliable supply of natural gas as called for in the 14th Five-Year Plan. From the perspective of BHI Tianjin Group, such members of Sinopec Group have the same status as other business and industrial users that purchase natural gas from BHI Tianjin Group, as those members of Sinopec Group become the customers of BHI Tianjin Group because their operation premises are located within the pipeline networks of BHI Tianjin Group. By entering into of the Sinopec Gas Supply Agreement, the BHI Tianjin Group can leverage on this geographical advantage to develop its business and carry out market expansion. The transactions contemplated under the Sinopec Gas Supply Agreement are expected to increase the operating sales revenue and profit of the Group.

(II) Sinopec Gas Transmission Agreement

Date

8 November 2021

The parties

- (a) BHI Tianjin
- (b) Sinopec Gas
- (c) SBI

Nature of the transactions

BHI Tianjin Group will provide natural gas transmission services to Sinopec Gas Group and SBI Group pursuant to the individual agreements for the transmission of natural gas to be entered into from time to time. Such natural gas is purchased and obtained by Sinopec Gas Group and SBI Group from upstream natural gas suppliers, and will be transmitted to Sinopec Gas Group and SBI Group by BHI Tianjin Group after receiving the natural gas.

Term

From 1 January 2022 to 31 December 2024 (both days inclusive)

LETTER FROM THE BOARD

Condition precedent to the taking effect of the Sinopec Gas Transmission Agreement

The Sinopec Gas Transmission Agreement will take effect subject to the approval of the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the Sinopec Gas Transmission Annual Caps) by the Independent Shareholders in accordance with requirements under the Listing Rules.

Consideration

The consideration will be settled on a monthly basis according to the amount of gas transmitted by BHI Tianjin Group.

Manner of payment

The volume of natural gas that BHI Tianjin Group has transmitted for Sinopec Gas Group and SBI Group for each month will be recorded by the parties using the gas measurement instruments approved by them. The parties will together record the gas transmission volume as shown on the gas measurement instruments on the volume handover sheet on the 25th day of each month and agree on the volume handover sheet. Based on volume handover sheet, BHI Tianjin Group will issue an invoice to Sinopec Gas Group and SBI Group on a monthly basis. The terms of settlement for the transactions pursuant to the Sinopec Gas Transmission Agreement based on the above arrangement are no less favourable to the Group than the terms of settlement for the transmission of gas by the Group to independent third parties.

Basis of consideration

The consideration will be determined based on arm's length negotiations according to the following factors:

1. the volume of natural gas to be transmitted by BHI Tianjin Group to Sinopec Gas Group and SBI Group; and
2. the gas transmission fee with reference to the gas transmission fee in respect of similar length of pipelines in the same industry and/or the pricing provisions in the regulatory notice on the gas transmission fee as stipulated by the TDRC from time to time.

LETTER FROM THE BOARD

The latest regulatory notice in respect of the transactions contemplated under the Sinopec Gas Transmission Agreement is as follows:

Name of notice	Relevant pricing provision
“Notice on Adjusting the Natural Gas Pipeline Transmission Price of the City from the Development and Reform Commission of Tianjin City” (Jin Development and Reform Price Zong 2019 No. 241)* (《天津市發展改革委關於調整我市天然氣管道運輸價格的通知》(津發改價管[2019]241號)) issued by TDRC on 4 April 2019	With effect from 1 April 2019, the gas transmission fee for the pipelines operated by Tianjin Clean Energy is adjusted to RMB0.00243 per cubic meter per kilometer

If there is an adjustment to the regulatory notices of the TDRC on the pricing provisions, the gas transmission fee will be adjusted correspondingly. The regulatory notices are updated from time to time by the TDRC without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the TDRC.

The individual agreements for the transmission of natural gas to be entered into by BHI Tianjin Group with Sinopec Gas Group and SBI Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the transmission of natural gas to independent third parties.

Sinopec Gas Transmission Annual Caps

The Sinopec Gas Transmission Annual Caps for the three years ending 31 December 2024 are set out as follows:

Sinopec Gas Transmission Annual Caps amounts (in RMB) ^(Note)

For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
2,010,000	2,010,000	2,015,000

Note: While SBI is not a subsidiary of Sinopec Gas, the Sinopec Gas Transmission Annual Caps do not include any transaction amount between BHI Tianjin Group and the associates of SBI which are not its subsidiaries.

LETTER FROM THE BOARD

Basis of the Sinopec Gas Transmission Annual Caps

The Sinopec Gas Transmission Annual Caps were determined after taking into account the following:

1. the historical transaction amounts of natural gas transmitted by Tianjin Clean Energy to SBI under the 2020 Sinopec Gas Transmission Agreement, which are set out as follows:

Approximate historical transaction amounts (in RMB)

For the period from 9 November 2020 to 31 December 2020	For the period from 1 January 2021 to 31 October 2021
10,890	532,000 ^{Note}

Note: For the purpose of calculating the utilisation rate, the annualised historical transaction amount for the period from 1 January 2021 to 31 October 2021 was approximately RMB638,400.

The existing annual caps under the 2020 Sinopec Gas Transmission Agreement for the period from 9 November 2020 to 31 December 2020 and for the year ending 31 December 2021 are RMB15,600 and RMB2,190,000 respectively and the utilisation rates of the annual caps are approximately 69.8% and 30.4% respectively.

2. estimates based on the demands for natural gas by the customers of Sinopec Gas Group and SBI Group; and
3. the gas transmission fee with reference to the gas transmission fee in the same industry and the pricing provisions in the regulatory notice on the gas transmission fee as stipulated by the TDRC from time to time.

Reasons for and benefits of entering into the Sinopec Gas Transmission Agreement

Sinopec Corp (of which Sinopec Gas is a branch company) is a large scale state-owned conglomerate with its subsidiaries spreading across the PRC. The Group will include such subsidiaries and associates of Sinopec Gas and SBI into the list of potential customers in the course of expansion of its principal business. The transmission of natural gas for Sinopec Gas Group and SBI Group, on normal commercial terms or better and terms that are no less favourable to the Group than those provided by the Group to independent third parties, increases the revenue of the Group and is in the interests of the Group as a whole.

LETTER FROM THE BOARD

OPINION OF THE DIRECTORS

The Board considers that the TEDA Transactions and the Sinopec Transactions are fair and reasonable and in the interest of the Shareholders as a whole.

No Director has a material interest in the transactions contemplated under the TEDA Gas Supply Agreement, TEDA Gas Supply Connection Agreement, New Annual Caps, Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement.

For good corporate governance practices:

- (a) Mr. Wang Zhiyong and Mr. Wang Gang, being Directors who also held executive positions in TEDA, and Mr. Yu Ke Xiang, being a Director who also holds executive positions in certain fellow subsidiaries of TEDA, abstained from voting at the resolutions of the Board approving the TEDA Gas Supply Agreement and TEDA Gas Supply Connection Agreement to avoid any potential conflict of interest; and
- (b) Mr. Zuo Zhi Min and Mr. Shen Hong Liang, being Directors who also hold executive positions in subsidiaries of Sinopec Corp, abstained from voting at the resolutions of the Board approving the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement to avoid any potential conflict of interest.

INTERNAL CONTROL

To ensure that the transactions contemplated under (i) the TEDA Gas Supply Agreement; (ii) the TEDA Gas Supply Connection Agreement; (iii) the New Annual Caps; (iv) the Sinopec Gas Supply Agreement; and (v) the Sinopec Gas Transmission Agreement will be on normal commercial terms that are fair and reasonable and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas, the provision of Gas Supply Connection Services and the transmission of natural gas to independent third parties, the Company has adopted the following internal control measures:

1. The Board office of the Company is responsible for regulating the review and approval of connected transactions to be entered into by the Group in the ordinary and usual course of the business of the Group.

Pursuant to the “Administrative Measures for Connected Transactions”* (《關連交易管理辦法》) of the Company (as amended from time to time), each department and subsidiary of the Group shall submit an information sheet for each connected transaction to the functional department, the finance department, the Board office of the Company and the secretary to the Board for review and approval. Such information sheet shall set out the terms and conditions and the pricing mechanism of the connected transaction, as well as comparison with terms and conditions and prices offered to at least two independent third parties with:

- (a) in respect of the TEDA Gas Supply Agreement and Sinopec Gas Supply Agreement, similar gas consumption, region and nature of gas consumption;

LETTER FROM THE BOARD

- (b) in respect of the TEDA Gas Supply Connection Agreement, similar gas consumption, region and difficulty of specific construction work; or
- (c) in respect of the Sinopec Gas Transmission Agreement, similar gas consumption, region.

The procedures for the approval and signing of the agreement for the connected transaction shall only commence after approval of the information sheet has been granted.

2. In the event there is no quotation or reference transaction from independent third parties available for comparison, the Group will consider the prevalent pricing policy of the industry (e.g. natural gas being sold at a certain percentage above the benchmark citygate prices of natural gas) and compare the price for the supply of natural gas, the provision of Gas Supply Connection Services or the transmission of natural gas with the relevant market price in the nearby region in respect of the relevant member of the Group or the BHI Tianjin Group.
3. The Board office of the Company monitors the actual transaction amounts of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group on a monthly basis to ensure compliance with the Listing Rules, and is responsible for reporting to the audit committee of the Company (which comprises all independent non-executive Directors) on an annual basis. The independent non-executive Directors will review the continuing connected transactions every year and confirm in the annual report of the Company 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 according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
4. The Company will engage its auditors to report on the continuing connected transactions every year. The auditors will provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions (1) have not been approved by the Board, (2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group, (3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions, and (4) have exceeded the caps.

In relation to the internal control measures in respect of the 2020 Sinopec Long-term Gas Supply Agreement, please refer to the circular of the Company dated 12 June 2020.

The Directors are of the view that the internal control measures above can ensure that the transactions contemplated under (i) the TEDA Gas Supply Agreement; (ii) the TEDA Gas Supply Connection Agreement; (iii) the New Annual Caps; (iv) the Sinopec Gas Supply Agreement; and (v) the Sinopec Gas Transmission Agreement will be 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.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES

The Company is an investment holding company. The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

TEDA is a state-owned enterprise established in the PRC and a controlling shareholder of the Company. The principal business areas of TEDA are regional development, public utilities, finance and modern services.

BHI Tianjin is principally engaged in investment and reinvestment in industries such as gas processing and stove production and areas where foreign investment is permitted by the PRC, investment in areas that support the transmission and distribution of urban gas pipeline networks, assisting or acting on behalf of the investee companies for purchase of domestic products and those from abroad, as well as domestic and overseas sale of products produced by the investee companies, and providing after-sales services; investment in consultancy services and technology research and development; operation and sales of liquified natural gas for domestic users.

SBI is a joint venture company indirectly held as to 50% by the Company and as to 50% by Sinopec Corp. SBI is principally engaged in the construction and operation of CNG terminals, CNG and LNG vehicle refuelling sub-stations, LNG supply, charging piles and urban gas transmission and distribution pipeline networks and other related services in Tianjin and its neighbouring areas.

Sinopec Lubricant Binhai is a branch company of Sinopec Lubricant, which is principally engaged in the production and sale of refined petroleum products, lubricant base oil, and petrochemical materials. Sinopec Lubricant is a wholly-owned subsidiary of Sinopec Corp.

Sinopec Gas is a branch company of Sinopec Corp, which is a joint-stock company incorporated in the PRC and is one of the largest integrated energy and chemical companies in the PRC that is mainly engaged in the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

The ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is a state-owned enterprise incorporated in the PRC principally engaged in the exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipment; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; and import and export of goods and technology.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

TEDA is the controlling shareholder of the Company indirectly interested in 534,113,305 Shares (representing approximately 39.50% of the total number of Shares in issue), and is thus a connected person of the Company under the Listing Rules. Subsidiaries and associates of TEDA are also regarded as connected persons of the Company. Therefore, transactions under the TEDA Gas Supply Agreement and the TEDA Gas Supply Connection Agreement will respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the TEDA Gas Supply Annual Caps and the TEDA Gas Supply Connection Annual Caps on an aggregate basis are more than 5%, the transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement and the TEDA Proposed Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On the other hand, Sinopec Corp is a substantial shareholder of the Company indirectly interested in 405,472,337 Shares (representing approximately 29.99% of the total number of Shares in issue), and is thus a connected person of the Company under the Listing Rules.

- (a) Since Sinopec Gas is a branch company of Sinopec Corp, Sinopec Gas and its subsidiaries and associates are connected persons of the Company under the Listing Rules.
- (b) Since Sinopec Lubricant Binhai is a branch company of Sinopec Lubricant, which is a wholly-owned subsidiary of Sinopec Corp, Sinopec Lubricant Binhai and its subsidiaries and associates are connected persons of the Company under the Listing Rules.
- (c) Since Sinopec Corp exercises or controls the exercise of 30% or more of the voting power at the general meeting of SBI, SBI is an associate of Sinopec Corp. SBI and its subsidiaries are thus connected persons of the Company under the Listing Rules.

Therefore, transactions under the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the New Annual Caps and the Sinopec Proposed Annual Caps on an aggregate basis are more than 5%, the New Annual Caps, the transactions contemplated under the New Annual Caps, the Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement and the Sinopec Proposed Annual Caps are also subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the TEDA Transactions and the Sinopec Transactions. Your attention is drawn to the advice from and the recommendation of the Independent Board Committee set out in its letter on pages 40 to 41 of this circular.

Octal has been appointed as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the TEDA Transactions and the Sinopec Transactions. Your attention is also drawn to the letter from Octal on pages 42 to 107 of this circular.

THE SGM

The SGM will be convened at which ordinary resolutions will be proposed to consider, and if thought fit, to approve the TEDA Transactions and the Sinopec Transactions.

Any Shareholder with a material interest in the TEDA Transactions and/or the Sinopec Transactions and its associates shall not vote on the resolutions to be proposed at the SGM to approve the TEDA Transactions and/or the Sinopec Transactions (where applicable).

As TEDA is materially interested in the TEDA Gas Supply Agreement and the TEDA Gas Supply Connection Agreement, TEDA and its associates holding approximately 39.50% of the total number of Shares in issue as at the Latest Practicable Date shall be required to abstain from voting on the resolutions to be proposed at the SGM to approve the TEDA Transactions.

As Sinopec Corp is materially interested in the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement, Sinopec Corp and its associates holding approximately 29.99% of the total number of Shares in issue as at the Latest Practicable Date shall be required to abstain from voting on the resolutions to be proposed at the SGM to approve the Sinopec Transactions.

A notice convening the SGM to be held at 10:00 a.m. on Thursday, 23 December 2021 at Canvas 5, 26/F, The Park Lane Hong Kong Hotel, 310 Gloucester Road, Causeway Bay, Hong Kong is set out on pages 112 to 115 of this circular. A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

In order to determine the Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 20 December 2021 to Thursday, 23 December 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, all completed transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 December 2021.

VOTING BY WAY OF POLL

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. The chairman of the meeting will therefore demand a poll for the ordinary resolutions put to the vote at the SGM pursuant to Bye-law 66 and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, having taken into account the advice of Octal, considers that (i) the transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement are in the ordinary and usual course of business of the Group; (ii) the TEDA Transactions and the Sinopec Transactions are on normal commercial terms; and (iii) the terms of the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the TEDA Proposed Annual Caps and the Sinopec Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the TEDA Transactions and the Sinopec Transactions.

RECOMMENDATION OF THE BOARD

Taking into account the letter from the Independent Board Committee and all other factors as stated above as a whole, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the TEDA Transactions and the Sinopec Transactions.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

By Order of the Board
BINHAI INVESTMENT COMPANY LIMITED
Gao Liang
Executive Director

**For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



濱海投資有限公司
BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2886)

6 December 2021

To the Independent Shareholders

Dear Sir or Madam,

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH TEDA
AND
(2) CONTINUING CONNECTED TRANSACTIONS WITH ASSOCIATES OF
CHINA PETROLEUM & CHEMICAL CORPORATION**

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of each of the TEDA Transactions and the Sinopec Transactions are fair and reasonable. Capitalised terms used herein shall have the same meanings as defined in the circular of the Company dated 6 December 2021 (the “**Circular**”) unless the context otherwise requires.

Octal has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the TEDA Transactions and the Sinopec Transactions.

Your attention is drawn to the “Letter from the Board” set out on pages 8 to 39 of the Circular which contains, *inter alia*, information about the terms of each of the TEDA Transactions and the Sinopec Transactions, and the “Letter from Octal” set out on pages 42 to 107 of the Circular which contains its advice in respect of the TEDA Transactions and the Sinopec Transactions together with the principal factors taken into consideration in arriving at such.

Having considered the terms of each of the TEDA Transactions and the Sinopec Transactions, and having taken into account the factors and reasons considered by and the advice of Octal, we consider that (i) the transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement are in the ordinary and usual course of business of the Group; (ii) the TEDA Transactions and the Sinopec Transactions are on normal commercial terms; and

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

(iii) the terms of the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the TEDA Proposed Annual Caps and the Sinopec Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the TEDA Transactions and the Sinopec Transactions.

Yours faithfully,

For and on behalf of the

Independent Board Committee

IP Shing Hing, J.P.

LAU Siu Ki, Kevin

Japhet Sebastian LAW

Independent Non-executive Directors

LETTER FROM OCTAL

The following is the full text of the letter from Octal Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and Independent Shareholders regarding the TEDA Transactions and the Sinopec Transactions.



801-805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

6 December 2021

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**RENEWAL OF CONTINUING CONNECTED
TRANSACTIONS WITH TEDA
AND
CONTINUING CONNECTED TRANSACTIONS WITH ASSOCIATES
OF CHINA PETROLEUM & CHEMICAL CORPORATION**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the TEDA Gas Supply Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Annual Caps); (ii) the TEDA Gas Supply Connection Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Connection Annual Caps); (iii) the New Annual Caps; (iv) the Sinopec Gas Supply Agreement and transactions contemplated thereunder (including the Sinopec Gas Supply Annual Caps); and (v) the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the Sinopec Gas Transmission Annual Caps), details of which are contained in the circular to the Shareholders dated 6 December 2021 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As the 2018 TEDA Gas Supply Agreement and the 2018 TEDA Gas Supply Connection Agreement will expire on 31 December 2021, and it is expected that the Group will continue to carry out similar transactions with TEDA Group, the Company, on 8 November 2021, has entered into (i) the TEDA Gas Supply Agreement with TEDA for a term from 1 January 2022 to 31 December 2024, under which the Group will supply natural gas to TEDA Group pursuant to agreements to be entered into from time to time; and (ii) the TEDA Gas Supply Connection Agreement with TEDA for a term from 1 January 2022 to 31 December 2024, under which the Group will provide Gas Supply Connection Services to TEDA Group pursuant to the Gas Connection Facilities Construction Engagement Agreements to be entered into from time to time.

LETTER FROM OCTAL

The 2020 Sinopec Long-Term Gas Supply Agreement and the existing annual caps for the period from 1 June 2020 to 31 December 2020 and for the year ending 31 December 2021 were approved by the Independent Shareholders. As the 2020 Sinopec Long-Term Gas Supply Agreement is effective until 31 December 2039, new annual caps for three years ending 31 December 2024 are proposed to be set to cover the transaction amounts to be incurred for the purchase of natural gas by the BHI Tianjin Group from the Sinopec Gas Group under the 2020 Sinopec Long-Term Gas Supply Agreement.

Besides, on 8 November 2021, BHI Tianjin has entered into (i) the Sinopec Gas Supply Agreement with Sinopec Gas, Sinopec Lubricant Binhai and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will supply natural gas to Sinopec Group pursuant to agreements to be entered into from time to time; and (ii) the Sinopec Gas Transmission Agreement with Sinopec Gas and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will transmit natural gas to Sinopec Gas Group and SBI Group pursuant to the agreements to be entered into from time to time.

TEDA is the controlling shareholder of the Company indirectly interested in 534,113,305 Shares (representing approximately 39.50% of the total number of Shares in issue), and is thus a connected person of the Company under the Listing Rules. Subsidiaries and associates of TEDA are also regarded as connected persons of the Company. Therefore, transactions under the TEDA Gas Supply Agreement and the TEDA Gas Supply Connection Agreement will respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the TEDA Gas Supply Annual Caps and the TEDA Gas Supply Connection Annual Caps on an aggregate basis are more than 5%, the transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement and the TEDA Proposed Annual Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On the other hand, Sinopec Corp is a substantial shareholder of the Company indirectly interested in 405,472,337 Shares (representing approximately 29.99% of the total number of Shares in issue), and is thus a connected person of the Company under the Listing Rules.

- (a) Since Sinopec Gas is a branch company of Sinopec Corp, Sinopec Gas and its subsidiaries and associates are connected persons of the Company under the Listing Rules.
- (b) Since Sinopec Lubricant Binhai is a branch company of Sinopec Lubricant, which is a wholly-owned subsidiary of Sinopec Corp, Sinopec Lubricant Binhai and its subsidiaries and associates are connected persons of the Company under the Listing Rules.
- (c) Since Sinopec Corp exercises or controls the exercise of 30% or more of the voting power at the general meeting of SBI, SBI is an associate of Sinopec Corp. SBI and its subsidiaries are thus connected persons of the Company under the Listing Rules.

LETTER FROM OCTAL

Therefore, transactions under the 2020 Sinopec Long-term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the New Annual Caps and the Sinopec Proposed Annual Caps on an aggregate basis are more than 5%, the New Annual Caps, the transactions contemplated under the Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement and the Sinopec Proposed Annual Caps are also subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Ip Shing Hing, *J.P.*, Mr. Lau Siu Ki, Kevin and Professor Japhet Sebastian Law, has been formed to advise the Independent Shareholders as to whether (i) the terms of TEDA Gas Supply Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Annual Caps); (ii) the terms of TEDA Gas Supply Connection Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Connection Annual Caps); (iii) the New Annual Caps; (iv) the terms of Sinopec Gas Supply Agreement and transactions contemplated thereunder (including the Sinopec Gas Supply Annual Caps); and (v) the terms of Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the Sinopec Gas Transmission Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned, conducted on normal commercial terms or better and in the ordinary and usual course of business of the Group, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the SGM.

We, Octal Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to whether (i) the terms of the TEDA Gas Supply Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Annual Caps); (ii) the terms of the TEDA Gas Supply Connection Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Connection Annual Caps); (iii) the New Annual Caps; (iv) the terms of the Sinopec Gas Supply Agreement and transactions contemplated thereunder (including the Sinopec Gas Supply Annual Caps); and (v) the terms of Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the Sinopec Gas Transmission Annual Caps) are fair and reasonable, whether such transactions and arrangements are in the interest of the Company and the Shareholders as a whole and as to voting in respect of the resolution(s) at the SGM. Our appointment has been approved by the Independent Board Committee. We are not connected with the Directors, chief executive of the Company and substantial Shareholders or any of their respective subsidiaries or associates and are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. In the two years immediately preceding the date of the TEDA

LETTER FROM OCTAL

Gas Supply Agreement; the TEDA Gas Supply Connection Agreement; the Sinopec Gas Supply Agreement; and the Sinopec Gas Transmission Agreement and up to the Latest Practicable Date, we were only engaged by the Company as an Independent Financial Adviser to the Company in respect of (i) the connected transaction in relation to the issue of new Shares under specific mandate and disposal of Shares by controlling Shareholders (details as contained in the circular of the Company dated 12 June 2020); and (ii) the continuing connected transaction in relation to the 2020 Sinopec Long-Term Gas Supply Agreement with Sinopec Gas (details as contained in the circular of the Company dated 12 June 2020) (the “**Previous Engagements**”).

Under the Previous Engagements, we were required to express our opinion on and give recommendations to the Independent Board Committee of the Company in respect of the relevant transactions. Apart from normal professional fee payable to us by the Company in connection with this appointment and the Previous Engagements, no arrangement exists whereby we will receive any fees or benefits from the Group or the Directors, chief executive and substantial Shareholders of the Group or TEDA Group or Sinopec Gas or the Sinopec Gas Group or Sinopec Corp or China Petrochemical Corporation or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of SGM. We have also relied on our discussions with the management of the Company regarding the transactions contemplated under the TEDA Gas Supply Agreement; the TEDA Gas Supply Connection Agreement; the Sinopec Gas Supply Agreement; the Sinopec Gas Transmission Agreement and the New Annual Caps including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, TEDA Group, Sinopec Gas, the Sinopec Gas Group, the Sinopec Group, Sinopec Corp, China Petrochemical Corporation and their respective associates, nor have we carried out any independent verification of the information supplied.

LETTER FROM OCTAL

(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH TEDA

TEDA GAS SUPPLY AGREEMENT AND TEDA GAS SUPPLY CONNECTION AGREEMENT

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the TEDA Gas Supply Agreement and the TEDA Gas Supply Connection Agreement, we have taken into account the following principal factors and reasons:

(I) The TEDA Gas Supply Agreement

Background of and reasons for entering into the TEDA Gas Supply Agreement

1. Background of the Group and TEDA

The Company is an investment holding company. The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

TEDA is a state-owned enterprise established in the PRC and a controlling shareholder of the Company. The principal business areas of TEDA are regional development, public utilities, finance and modern services. It is a large-scale state-owned conglomerate and is one of the most significant enterprises in the construction of the Binhai New Area of Tianjin.

2. Background of and Reasons for entering into of the TEDA Gas Supply Agreement

2.1 Background of the TEDA Gas Supply Agreement

As the 2018 TEDA Gas Supply Agreement will expire on 31 December 2021, and it is expected that the Group will continue to carry out similar transactions with TEDA Group, the Company has entered into the TEDA Gas Supply Agreement with TEDA for a term from 1 January 2022 to 31 December 2024, under which the Group will supply natural gas to TEDA Group pursuant to agreements to be entered into from time to time.

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2.2 Reason for and benefits of entering into the TEDA Gas Supply Agreement

The Binhai New Area of Tianjin is an important strategic region for the development of the Group's business. The Group's largest customers such as Tianjin TEDA Gas Co., Ltd* (天津泰達燃氣有限責任公司) and Tianjin Eco-city TEDA Marine Technology Development Co., Ltd* (天津生態城泰達海洋技術開發有限公司), which are associates of TEDA to which the Group supplies natural gas, are based in the Binhai New Area of Tianjin. The Binhai New Area of Tianjin is a national strategic development region, comprising 21 street towns and 5 national development areas, namely Tianjin Economic and Technological Development Area, Tianjin Port Free Trade Area, Tianjin Binhai Hi-tech Industrial Development Area, Tianjin Dongjiang Port Free Trade Area and Sino-Singapore Tianjin Eco-City.

A number of key projects featuring large aircrafts, large rockets, large refineries and large vehicles have gathered in the Binhai New Area of Tianjin, leading to the formation of eight main industries, including aviation and aerospace, automobile and equipment manufacturing, petrochemicals, electronic communications, grain oil and light textile, biomedicine, new energy and new materials. As such, there is a strong demand for the application of natural gas for economic and social development.

TEDA is a large scale state-owned conglomerate and is one of the most significant enterprises in the construction of the Binhai New Area of Tianjin. TEDA is also the main developer of various functional zones within the Binhai New Area of Tianjin. Moreover, TEDA has a large number of subsidiaries engaged in various industries in the Binhai New Area of Tianjin, such as regional development, property development etc. Therefore, the entering into of the TEDA Gas Supply Agreement is beneficial to the Group for its business development and market expansion in the strategic region of Binhai New Area of Tianjin, which will in turn increase the Group's sales revenue and profits. Further, such transactions will also facilitate the Group's collaboration with its controlling shareholder, TEDA, which is conducive to promoting their complementary strengths in the industries and the joint development of TEDA and the Group.

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We were advised by the management of the Company that the Group has been supplying natural gas to the TEDA Group from time to time under the 2018 TEDA Gas Supply Agreement, which would expire on 31 December 2021. It is expected that the Group will continue to carry out similar transactions with the TEDA Group on an on-going basis after the expiry of the 2018 TEDA Gas Supply Agreement. As such, the Company entered into the TEDA Gas Supply Agreement with TEDA on 8 November 2021.

On the basis of the above, we concur with the Company that the entering into the TEDA Gas Supply Agreement is in the interests of the Company and the Shareholders as a whole.

3. *Major terms of the TEDA Gas Supply Agreement*

Principal terms under the TEDA Gas Supply Agreement

On 8 November 2021, the Company entered into the TEDA Gas Supply Agreement with TEDA to supply natural gas to the TEDA Group on a project basis for a term from 1 January 2022 to 31 December 2024 on terms according to the agreements for the supply of natural gas to be entered into between the parties from time to time, with particulars as follow:

The Group will supply natural gas to TEDA Group pursuant to the individual agreements for the supply of natural gas to be entered into from time to time.

Manner of payment under the TEDA Gas Supply Agreement

The manner of payment is governed by the individual agreements for the supply of natural gas, to be entered into between the Group or its subsidiaries on the one hand, and TEDA or its subsidiaries or associates on the other hand, from time to time. The payment for gas supply is normally in the form of prepayment and will be settled on a monthly basis.

As advised by the management of the Company, to ensure that its customers will honor their payment obligations, since 2014, the Group has been introducing an advance payment arrangement for supplying natural gas. We noted that the contracts state that the customers would have to top up their accounts in accordance to their estimated monthly maximum gas consumption as advance payment with reference to the monthly maximum gas volume and the natural gas consumption plan. Invoices will be issued to the customers pursuant to the amount of natural gas consumed for the customers' monthly settlement. As confirmed

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by the management of the Company, the deposits were treated as prepayment of natural gas sale price and the actual usage from customer will offset against the deposit account. If the prepayment is used up, gas supply to the customer will cease. The Group will send a reminder to the customer when the advance payment of charges is nearly used up. We have reviewed the three samples of proof of payments in relation to the advance payment arrangement and found that the customers deposited the amount exceed the amount of their monthly gas consumption in the previous month.

The Group is still in the process of transitioning into the advance payment arrangement with all of its customers and such payment arrangement has been made compulsory for new customers of the Group. The advance payment arrangement, while not included in the TEDA Gas Supply Agreement because some of the existing customers of the Group have not yet accepted such arrangement, will be set out in the gas supply agreements to be entered into with new customers. We have confirmed with the management of the Company that among the associates and subsidiaries of TEDA who are customer of the Group, only one subsidiary of TEDA has not yet adopted the advance payment arrangement (the “**Non-APA Settlement Subsidiary**”). The payment for gas supply of the Non-APA Settlement Subsidiary is on monthly basis based on the amount of natural gas consumed in the previous month. As advised by the management of the Company, the Non-APA Settlement Subsidiary has maintained due payment of its gas charges without default. We further reviewed three samples of contracts entered by the Group and independent customers who have not adopted the advance payment arrangement and noted that the payment term of the Non-APA Settlement Subsidiary is no less favourable than that of the independent customers who have not adopted the advance payment arrangement.

Having considered that (i) the Group has been introducing an advance payment arrangement which the natural gas charges were paid in advance; (ii) among the associates and subsidiaries of TEDA being the customers of the Group, there is only one subsidiary of TEDA has not adopted the advance payment arrangement; (iii) the Non-APA Settlement Subsidiary has no payment default record; and (iv) the payment term of Non-APA Settlement Subsidiary is no less favourable than that of the independent customers who have not adopted the advance payment arrangement, we are of the view that the manner of payment under the TEDA Gas Supply Agreement is fair and reasonable.

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Consideration under the TEDA Gas Supply Agreement

The consideration will be determined based on the volume of gas supplied by the Group to TEDA Group per month according to the meter readings and the price for the supply of natural gas.

The price for the supply of natural gas under the TEDA Gas Supply Agreement will be determined based on arm's length negotiations between the relevant parties, with reference to (i) the notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by NDRC from time to time; (ii) the notice on adjustments to the price of natural gas consumed by non-residential users as stipulated by TDRC and Tianjin Binhai New Area DRC from time to time; and (iii) the price of natural gas purchased by the Group from the upstream natural gas suppliers, which is determined with reference to the above regulatory notices and the volume of natural gas sourced by the Group.

The Group and the TEDA Group strictly comply with the relevant pricing provisions in the regulatory notices issued by the PRC government authorities from time to time. The management of the relevant subsidiary of the Group will also take into account the market competition in determining the price for the supply of natural gas by the Group. Where market competition is present at the relevant location, discounts may be provided to customers with bulk purchases, as permitted by the relevant law and regulations. In the absence of market competition at the relevant location in relation to the supply of natural gas, the Group will adhere to the exact relevant price as stipulated by the PRC government authorities.

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The latest regulatory notices in respect of the transactions contemplated under the TEDA Gas Supply Agreement include:

Name of notice	Relevant pricing provision
1. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the City Development and Reform Commission” (Jin Development and Reform Price Zong 2021 No. 152)* (《市發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津發改價綜[2021]152號)) issued by TDRC on 27 May 2021	With effect from 1 June 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter, and the price of natural gas for concentration on heat supply is adjusted to RMB2.33 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.
2. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the Area Development and Reform Commission” (Jin Bin Development and Reform Price Guan Fa 2021 No. 5)* (《區發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津濱發改價管發[2021]5號)) issued by Tianjin Binhai New Area DRC on 28 May 2021	With effect from 1 June 2021 to 31 October 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.

If there is an adjustment to the regulatory notices of the PRC government authorities on natural gas sale price, the price for the supply of natural gas will be adjusted correspondingly. The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities.

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The individual agreements for the supply of natural gas to be entered into by the Group with TEDA Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas to independent third parties. As mentioned in the section below headed “Regarding the internal control measures governing the transactions under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement”, the Group, for each connected transaction under the TEDA Gas Supply Agreement, will assess the relevant terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged to at least two independent third party customers in order to ensure that such transaction will be on normal commercial terms that are fair and reasonable. According to the natural gas transaction records in 2021 provided by the Company, we have selected and reviewed three sample of contracts and invoices issued by the Group to the TEDA Group in relation to the supply of natural gas that the Group entered into with different subsidiaries of TEDA (the “**Selected TEDA Contracts**”), which represented approximately 19% of the total number of subsidiaries of TEDA purchasing natural gas from the Group as at 31 October 2021 and the actual purchased volume of natural gas by these subsidiaries of TEDA accounted for approximately 94% of the total natural gas purchased by the TEDA Group from the Group during the ten months period ended 31 October 2021. Thus, we considered that the Selected TEDA Contracts is representative. We have also obtained and reviewed three samples of contracts for supply of natural gas entered into by the Group and independent third parties at the time similar to the selected transactions related to the TEDA Group (the “**Selected Third Parties Contracts**”), and noted that the terms offered by the Group to the TEDA Group were comparable to those offered to the independent third parties.

We noted that customers of the Group are mainly non-residential users. Non-residential users, which refer to natural gas users other than individual and household users, include (i) general industrial and commercial and other users (i.e. corporate customers who purchase natural gas for their own consumption); (ii) central heating users (i.e. customers who purchase natural gas for their large-scale heating supply businesses); and (iii) wholesale users (i.e. customers which bulk purchase natural gas for resale) (the “**Gas Supply Categories**”). Each of member of the TEDA Group belongs to a different type of users depending on their principal business. All of the gas supply services to TEDA Group are conducted in Tianjin. Therefore, as part of our due diligence, we have obtained from the Company the breakdown of gas supply unit prices of the Company in Tianjin for customers (excluding TEDA Group) under each of the above three Gas Supply

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Categories during the recent ten months ended 31 October 2021 and compared to the breakdown of gas supply unit price for TEDA Group under each of the above three Gas Supply Categories during the respective period under the current natural gas market sentiments. We noted that the average gas supply unit prices for TEDA Group under each of the above three Gas Supply Categories are relatively higher than the average gas supply unit prices of the Company in Tianjin for customers (excluding TEDA Group) under each of the above three Gas Supply Categories during the respective period.

Therefore, we concurred with the Company that the pricing of the individual agreements for the supply of natural gas to be entered into by the Group with TEDA Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas to independent third parties.

4. *Analysis on the TEDA Gas Supply Annual Caps*

The following table summarises (i) the historical transaction amounts of natural gas supplied by the Group to the TEDA Group under 2018 TEDA Gas Supply Agreement; and (ii) the TEDA Gas Supply Annual Caps for the three years ending 31 December 2024:

	For the year ended 31 December		For the period from 1 January 2021 to				
	2019		2020		31 October 2021		
	Approximate historical transaction amount (RMB)	Existing annual cap amount (RMB)	Approximate historical transaction amount (RMB)	Existing annual cap amount (RMB)	Approximate historical transaction amount (RMB)	historical transaction amount (annualised) (Note 1) (RMB)	Existing annual cap amount (RMB)
Actual transaction amount of natural gas supplied by the Group to the TEDA Group under the 2018 TEDA Gas Supply Agreement	336,340,000	499,495,000	219,073,100	537,234,000	58,789,000	70,546,800	550,270,000
Utilisation rate (Note 2)		67.3%		40.8%		12.8%	
				For the year ending 31 December			
				2022	2023	2024	
				<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	
TEDA Gas Supply Annual Caps			179,957,000	378,879,000	508,773,000		

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Notes:

1. The annualised historical transaction amount under the 2018 TEDA Gas Supply Agreement of approximately RMB70.5 million for the ten months ended 31 October 2021 is presented for illustration purpose only.
2. The utilisation rate is calculated as the actual transaction amount/annualised actual transaction amount under the 2018 TEDA Gas Supply Agreement divided by the existing annual caps under the 2018 TEDA Gas Supply Agreement (the “**2018 Gas Supply Caps**”) for the respective year.

As stated in the Letter from the Board, the TEDA Gas Supply Annual Caps were determined after taking into account, inter alia, the followings:

- (i) the above historical transaction amount of natural gas supplied by the Group to TEDA Group;
- (ii) estimates on the sale price of natural gas to be supplied by the Group to TEDA Group based on (a) the benchmark prices of natural gas consumed by non-residential users as stipulated in the regulatory notices issued by the PRC government authorities; and (b) the prevailing sale prices of natural gas supplied by the Group to its non-residential customers; and
- (iii) estimates on the demand for natural gas by TEDA Group based on (a) the actual volumes of natural gas supplied by the Group to the TEDA Group; (b) the expansion plan of the subsidiaries and associates of TEDA from 2022 to 2024; and (c) the future trend of the demand for natural gas.

As shown in table above, the historical transaction amount of natural gas traded between the Group and the TEDA Group decreased from approximately RMB336.3 million for the year ended 31 December 2019 to approximately RMB219.1 million for the year ended 31 December 2020 and further decreased to approximately RMB58.8 million for the ten months ended 31 October 2021. The utilisation rate of the 2018 Gas Supply Caps for the years ended 31 December 2019 and 2020 and for the ten months ended 31 October 2021 were approximately 67.3%, 40.8% and 12.8%, respectively. The management of the Company advised that the decrease in transaction amount and the low utilisation rate of the 2018 Gas Supply Caps was mainly due to (i) the outbreak of the COVID-19 pandemic during 2020 and 2021; (ii) five subsidiaries or associates of TEDA Group were no longer connected persons of the Company due to changes in equity interest held by TEDA Group during 2020; and (iii) a key customer of the Group in Tianjin, being a subsidiary of TEDA, had accessed to another new source of natural gas as its alternative core natural gas supplier during 2020 under the competitive natural gas supply market.

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Based on the information provided by the Company, we noted that the 2018 Gas Supply Caps for the year ending 31 December 2021 consist of 17 projects, including 10 general industrial and commercial and other usage projects, 1 central heating projects and 6 wholesale projects. Due to the outbreak of the COVID-19 pandemic in 2020 and 2021, construction works in the PRC had been suspended. As advised by the management of the Company, several construction projects of TEDA Group had been suspended, as a result the provision of Gas Supply Connection Services to TEDA Group has been postponed. Furthermore, the delay in the construction projects of TEDA Group lead to a reduction in demand of natural gas, thus the natural gas consumed by TEDA Group from the Group reduced. During 2020, TEDA disposed the equity interests of five subsidiaries and associates (the “**Disposed TEDA Subsidiaries**”) which operate 8 projects under the 2018 Gas Supply Caps for the year ending 31 December 2021. After the restructuring of TEDA, the Disposed TEDA Subsidiaries were no longer connected persons of the Company, therefore their transaction amount are not included in the 2018 Gas Supply Caps for the year ending 31 December 2021. Based on the information provided by the Company, the estimated transaction amount for the Disposed TEDA Subsidiaries accounted for approximately 25.9% of the 2018 Gas Supply Caps for the year ending 31 December 2021. Furthermore, as advised by the management of the Company, during the year 2020, a subsidiary of TEDA had accessed to a new source of natural gas supply as its alternative core natural gas supplier under the competitive natural gas supply market (the “**New Source TEDA Subsidiary**”). The estimated transaction amount with the New Source TEDA Subsidiary accounted for approximately 51.3% of the 2018 Gas Supply Caps for the year ending 31 December 2021. We further noted that the actual transaction amount with the New Source TEDA Subsidiary for the ten months ended 31 October 2021 accounted for approximately 11% of the estimated transaction amount of the New Source TEDA Subsidiary under the 2018 Gas Supply Caps for the year ending 31 December 2021. The Group has re-negotiated with New Source TEDA Subsidiary to resume stable supply of natural gas in the future and the New Source TEDA Subsidiary has expressed interest in this regard.

The TEDA Gas Supply Annual Caps for the three years ending 31 December 2024 are approximately RMB180.0 million, RMB378.9 million and RMB508.8 million, respectively. We have obtained from the Company a detailed estimation of the TEDA Gas Supply Annual Caps in respect of the estimated annual transaction amount for the supply of natural gas from the Group to TEDA Group for the three years ending 31 December 2024 (the “**Gas Supply Estimation**”). We noted from the Gas Supply Estimation that the TEDA Gas Supply Annual Caps are derived from multiplying the estimated natural gas sale price by the estimated volume of natural gas to be supplied by the Group to the subsidiaries and associates of TEDA. Further to the enhanced cooperation between TEDA Group and the Group and in comparison to the 17 projects under the 2018 Gas Supply Caps, the management of the Company has included 23 projects of the subsidiaries and associates of TEDA in the Gas Supply Estimation, including 16 general industrial and commercial and other usage projects, 5 central heating projects and 2 wholesale projects.

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The natural gas sale price used in the Gas Supply Estimation were estimated based on the pricing policy as discussed in the above section headed “3. Major terms of the TEDA Gas Supply Agreement”. We noted that the estimated natural gas sale prices were based on (i) the notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by NDRC from time to time; (ii) the notice on adjustments to the price of natural gas consumed by non-residential users as stipulated by TDRC and Tianjin Binhai New Area DRC from time to time; and (iii) the price of natural gas purchased by the Group from the upstream natural gas suppliers.

The volume of natural gas to be supplied by the Group to the subsidiaries and associates of TEDA were estimated based on (i) the actual volumes of natural gas supplied by the Group to the subsidiaries and associates of TEDA; (ii) the expansion plan of the subsidiaries and associates of TEDA for the year 2022 to 2024; and (iii) the future trend of the demand for natural gas. We noted that the Group has supplied natural gas to 18 projects of the subsidiaries and associates of TEDA out of 23 projects of the subsidiaries and associates of TEDA included in the Gas Supply Estimation. According to the information published by the NDRC, the natural gas consumption in 2020 was approximately 320 billion m³, representing an increase of 5.6% as compared to that in 2019. According to the China Natural Gas Development Report (2021) issued by the National Energy Administration, the consumption of natural gas is expected to increase to approximately 450 billion cubic meter in 2025, representing a compound annual growth rate of approximately 7.1%. We noted that the management of the Company has applied an annual growth rate of approximately 2%-7% in estimating the volume of natural gas to be supply by the Group to the existing projects of TEDA Group which is in line with the above growth trend. For the 5 new projects of the subsidiaries and associates of TEDA included in the Gas Supply Estimation, the volume of natural gas to be supplied by the Group was estimated based on the capacity of the gas equipment to be constructed for the projects by the subsidiaries and associates of TEDA and the expected natural gas consumption upon completion. We have reviewed the construction plan of the subsidiaries and associates of TEDA which stated the capacity of the gas equipment and the expected completion date in which 3 projects are expected to commence the consumption of natural gas in November 2022, 1 project is expected to commence the consumption of natural gas on January 2023 and 1 project is expected to commence the consumption of natural gas in November 2024.

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The proposed annual caps under the TEDA Gas Supply Agreement for the year ending 31 December 2022 is approximately RMB180.0 million, representing approximately 2.55 times to the annualised actual transaction amount of supply of natural gas for the year 2021. The increment in the transaction amount was mainly due to (i) the expected commencement of three new projects in November 2022; and (ii) the expected expansion of capacity of gas equipment by a subsidiary of TEDA in November 2022; and (iii) the Group being able to remain as one of the core natural gas suppliers of the New Source TEDA Subsidiary. The proposed annual caps under the TEDA Gas Supply Agreement for the year ending 31 December 2023 increased by approximately RMB198.9 million as compared to that for the year ending 31 December 2022 was mainly due to (i) full year operation of the three new projects commenced in November 2022; and (ii) the expected commencement of new project on January 2023. The proposed annual cap under the TEDA Gas Supply Agreement for the year ending 31 December 2024 further increases by approximately RMB129.9 million mainly due to (i) the expected commencement of new project in November 2024; and (ii) the expected expansion of capacity of gas equipment by two subsidiaries of TEDA in 2024.

Based on the above, we consider that the assumption on the volume of natural gas to be supplied to the TEDA Group for the calculation of the TEDA Gas Supply Annual Caps was reasonably made. Having taken into account the above analysis on the projected demand and prices of natural gas to be supplied to the TEDA Group during the term of the TEDA Gas Supply Agreement, we consider that the TEDA Gas Supply Annual Caps proposed by the Directors are fair and reasonable.

(II) The TEDA Gas Supply Connection Agreement

Background of and reasons for entering into the TEDA Gas Supply Connection Agreement

1. Background of the Group and TEDA

The Company is an investment holding company. The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

TEDA is a state-owned enterprise established in the PRC and a controlling shareholder of the Company. The principal business areas of TEDA are regional development, public utilities, finance and modern services. It is a large-scale state-owned conglomerate and is one of the most significant enterprises in the construction of the Binhai New Area of Tianjin.

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2. *Background of and Reasons for entering into of the TEDA Gas Supply Connection Agreement*

2.1 Background of the TEDA Gas Supply Connection Agreement

As the 2018 TEDA Gas Supply Connection Agreement will expire on 31 December 2021, and it is expected that the Group will continue to carry out similar transactions with TEDA Group, the Company has entered into the TEDA Gas Supply Connection Agreement with TEDA for a term from 1 January 2022 to 31 December 2024, under which the Group will provide Gas Supply Connection Services to TEDA Group on a project basis pursuant to the Gas Connection Facilities Construction Engagement Agreements to be entered into from time to time.

2.2 Reason for and benefits of entering into the TEDA Gas Supply Connection Agreement

The management of the Company considers that the entering into of the TEDA Gas Supply Connection Agreement with TEDA is beneficial to all parties in responding positively to the 14th Five-Year call for dual carbon goal, practicing green development principles, promotion of safe and efficient use of clean energy, and will also be conducive to increasing the revenue and profit of the Group.

We were advised by the management of the Company that the Group has been providing Gas Supply Connection Services to the TEDA Group from time to time under the 2018 TEDA Gas Supply Connection Agreement, which would expire on 31 December 2021. It is expected that the Group will continue to carry out similar transactions with the TEDA Group on an on-going basis after the expiry of the 2018 TEDA Gas Supply Connection Agreement. As such, the Company entered into the TEDA Gas Supply Connection Agreement with TEDA on 8 November 2021.

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Having considered the above and the reasons discussed in the subsectioned headed “2.2 Reason for and benefits of entering into the TEDA Gas Supply Agreement”, in particular, (i) TEDA a large-scale state-owned conglomerate and is one of the most significant enterprises in the construction of the Binhai New Area of Tianjin; (ii) the Binhai New Area of Tianjin is an important strategic region for the development of the business of the Group and that a number of subsidiaries and associates of TEDA which have high demands for Gas Supply Connection Services are located in the Binhai New Area of Tianjin; (iii) the Group can develop and expand its market share and enhance its competitiveness in the Binhai New Area of Tianjin through the transactions under the TEDA Gas Supply Connection Agreement; (iv) the transactions under the TEDA Gas Supply Connection Agreement can secure and broaden the sales channel of the Group; (v) provision of gas supply connection services are core and ordinary businesses of the Group; and (vi) provision of the Gas Supply Connection Services to the TEDA Group provide additional revenue to the Group, we concur with the Company that entering into the TEDA Gas Supply Connection Agreement is in the interests of the Company and the Shareholders as a whole.

3. *Major terms of the TEDA Gas Supply Connection Agreement*

Principal terms under the TEDA Gas Supply Connection Agreement

On 8 November 2021, the Company entered into the TEDA Gas Supply Connection Agreement with TEDA to provide Gas Supply Connection Services to TEDA Group on a project basis for a term from 1 January 2022 to 31 December 2024 on terms according to the Gas Connection Facilities Construction Engagement Agreements to be entered into between the parties from time to time, with particulars as follow:

The Group will provide Gas Supply Connection Services to TEDA Group pursuant to the Gas Connection Facilities Construction Engagement Agreements to be entered into from time to time.

Manner of payment under the TEDA Gas Supply Connection Agreement

The manner of payment is governed by the Gas Connection Facilities Construction Engagement Agreements to be entered into between the Group and TEDA Group from time to time. Pursuant to the Gas Connection Facilities Construction Engagement Agreements, the consideration for the Gas Supply Connection Services is generally either to be satisfied in full prior to commencement of construction, or by an advance payment of 50% of the total consideration within 7 days from the date of the Gas Connection Facilities Construction Engagement Agreement and payment of the remaining balance within 7 days after the completion of the project.

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We reviewed 6 samples of gas supply connection service agreement with independence third party customers and noted that the payment terms is either to be satisfied in full prior to commencement of construction, or by an advance payment of 40%-50% of the total consideration within 7-10 days from the date of the agreement and payment of the remaining balance at the time of its completion. We also noted that a second installment would be required within a period of time according to the progress of the project in some of the agreements.

Having considered that the consideration for the Gas Supply Connection Services under the TEDA Gas Supply Connection Agreement is generally either to be satisfied in full prior to commencement of construction, or by an advance payment of 50% of the total consideration within 7 days from the date of the Gas Connection Facilities Construction Engagement Agreement and payment of the remaining balance within 7 days after the completion of the project which is comparable to the existing Gas Supply Connection Services agreement, we consider that the manner of payment under the TEDA Gas Supply Connection Agreement is no less favourable than the current effective gas supply connection services agreements entered by the Group with other customers, therefore is on normal commercial terms that are fair and reasonable.

Consideration under the TEDA Gas Supply Connection Agreement

The price for the provision of Gas Supply Connection Services to TEDA Group will be determined based on arm's length negotiations between the relevant parties, with reference to (i) the amount of construction work to be carried out, which includes the fees for sub-contracting the design, construction, supervision, purchasing of parts, equipment and materials for the construction and the maintenance of the facilities constructed; and (ii) the daily maximum gas consumption volume for the gas connection facilities to be constructed.

The Gas Connection Facilities Construction Engagement Agreements to be entered into by the Group with TEDA Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for supply of the same services to independent third parties.

As advised by the management of the Company, the management of the relevant subsidiary of the Group will make reference to the relevant comparable prices for similar gas supply connection services provided by the Group to at least two independent third parties which are selected pursuant to their gas consumption, region and difficulty of specific construction work similar to those of connected parties to ensure that prices charged to TEDA Group are not lower than those charged to independent third party customers. In the event there is no quotation or reference transaction to independent third parties available, the Group will ensure that the actual prices charged to TEDA Group fall within the Group's

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range of profit margin. The costs components taken into account by the Group when determining prices for the provision of the Gas Supply Connection Services include (i) length of the pipe network, (ii) pipe diameter, (iii) gas equipment, and (iv) difficulty of construction at the site. Those cost components will be considered with reference to prevailing market rates. We noted from the internal document in relation to the calculation of the expected profit margin for the proposed project provided by the Company that the expected cost components and its cost contributed to the components are evaluated. Also, the Company provides the guideline of the cost of the materials to estimate the total cost for the project. After the estimated cost is evaluated, the management would decide the sales prices that would ensure the margin falls within the pre-determined range by the Company. A higher gas consumption volume may indicate the higher cost of the project as more resources would be required, hence it affects the profit margin of the project.

During our discussion with the management of Company, the profit margin of the Group for Gas Supply Connection Services was normally between 50%-70% in 2019-2021. With reference to the historical range of profit margin, the management of the Company considers profit margin is estimated to be between 50%-70% for 2022-2024. We noted that the management of the Company has assumed the market condition in the coming 3 years would remain stable therefore, both the profit margins in the past 3 years and the coming 3 years are pre-determined in a similar range. We have obtained and reviewed the list of completed projects with TEDA Group during 2019-2021 from the Company and noted that the profit margin of those projects were over 50%. We understand from the management of the Company that it is a general market practice to charge a higher unit gas supply connection fee for users with larger daily maximum gas consumption volume as those projects usually involve larger construction scale and more safety and maintenance considerations and thus higher construction costs and maintenance costs. From the samples of the internal controls of profit margin contributed to the project, factors such as the number of gas facility and its volume of gas consumption are clearly recorded and have been taken into account in determining the daily maximum gas consumption volume.

As mentioned in the section below headed “Regarding the internal control measures governing the transactions under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement”, the Group, for each connected transaction under the TEDA Gas Supply Connection Agreement, will assess the relevant terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged to at least two independent third party customers in order to ensure that such transaction will be on normal commercial terms that are fair and reasonable. The management of the Company confirmed that the same pricing policy and verification work on the pricing of the gas supply connection services were and would be applied consistently to all transactions in respect of the provision of Gas Supply Connection Services by the Group to the TEDA Group.

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Therefore, we concurred with the Company that the pricing of the Gas Connection Facilities Construction Engagement Agreements to be entered into by the Group with TEDA Group will be on normal commercial terms that are fair and reasonable; and will be on terms not less favorable to the Group than those available to the Group for supply of the same services to independent third parties.

4. Analysis on the TEDA Gas Supply Connection Annual Caps

The following table summarises (i) the historical transaction amounts of natural gas supplied by the Group to the TEDA Group under 2018 TEDA Gas Supply Connection Agreement; and (ii) the TEDA Gas Supply Connection Annual Caps for the three years ending 31 December 2024:

	For the year ended 31 December		For the period from 1 January 2021 to				
	2019		2020		31 October 2021		Existing annual cap amount
	Approximate historical transaction amount	Existing annual cap amount	Approximate historical transaction amount	Existing annual cap amount	Approximate historical transaction amount	Approximate historical transaction amount	
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	
				(Note 1)			
Actual transaction amount of provision of Gas Supply Connection Services by the Group to the TEDA Group under the 2018 TEDA Gas Supply Connection Agreement	7,643,000	22,690,000	9,311,100	30,302,000	10,456,000	12,547,200	27,776,000
Utilisation rate (Note 2)		33.7%		30.7%		45.2%	

	For the year ending 31 December			
	2022	2023	2024	
	(RMB)	(RMB)	(RMB)	
TEDA Gas Supply Connection Annual Caps		29,252,000	14,253,000	34,640,000

Notes:

- The annualized historical transaction amount under the 2018 TEDA Gas Supply Connection Agreement of approximately RMB12.5 million for the ten months ended 31 October 2021 is presented for illustration purpose only.
- The utilisation rate is calculated as the actual transaction amount/annualised actual transaction amount under the 2018 TEDA Gas Supply Connection Agreement divided by the existing annual caps under the 2018 TEDA Gas Supply Connection Agreement (the “**2018 Gas Supply Connection Caps**”) for the respective year.

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As stated in the Letter from the Board, the TEDA Gas Supply Annual Caps were determined after taking into account, inter alia, the followings:

- (i) the above historical transaction amounts of Gas Supply Connection Services provided by the Group to the TEDA Group;
- (ii) the transaction amounts under the Gas Connection Facilities Construction Engagement Agreements entered into between the subsidiaries of the Group and TEDA Group, which are yet to be carried out in full; and
- (iii) estimates on the demands for Gas Supply Connection Services based on information obtained from negotiations with TEDA Group, including the estimated gross floor area requiring Gas Supply Connection Services for business developments and the progress of different projects.

We noted that the historical transaction amount of the Gas Supply Connection Services for the two years ended 31 December 2020 were approximately RMB7.6 million and RMB9.3 million, respectively. The utilisation rate of the 2018 Gas Supply Connection Caps was approximately 33.7% and 30.7% for the two years ended 31 December 2020, respectively. As advised by the management of the Company, the low utilisation rate was mainly due to the outbreak of the COVID-19 pandemic in 2019 and 2020 leading to the postponements of the construction projects of TEDA Group. As the economy in Mainland China gradually resumed as a result of the continuous control of the pandemic prevention in 2021, TEDA Group resumed the construction projects and therefore the transaction amount increased to approximately RMB10.5 million for the ten months ended 31 October 2021, representing an annualised utilization rate of approximately 45.2%.

We have obtained from the Company a detailed estimation of the TEDA Gas Supply Connection Annual Caps in respect of the estimated annual transaction amount for the provision of Gas Supply Connection Services by the Group to TEDA Group for the three years ending 31 December 2024 (the “**Gas Supply Connection Estimation**”). Based on the Gas Supply Connection Estimation, we noted that the management of the Company uses the following factors to determine the TEDA Gas Supply Connection Annual Caps:

- (i) transaction amounts under the Gas Connection Facilities Construction Engagement Agreements entered into between the subsidiaries of the Group and TEDA Group, which are yet to be carried out in full, with the amount to be recognised for the three years ending 31 December 2024 being approximately RMB11.5 million in aggregate; and

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- (ii) estimates on the demands for Gas Supply Connection Services
 - (a) estimated residential/non-residential units and estimated gross floor area

According to the management of the Company, estimates on demands for Gas Supply Connection Services are based on information of secured projects and projects under negotiations with TEDA Group (being approximately RMB29.3 million, RMB14.3 million and RMB34.6 million for the three years ending 31 December 2024 respectively, representing 100% of the TEDA Gas Supply Connection Annual Caps). Such estimated demand is based on the expected development progress and schedule of the relevant projects of TEDA Group:

- (1) the estimated gross floor area requiring Gas Supply Connection Services for construction work (being approximately 305,848m², 283,483m² and 618,762m² for the three years ending 31 December 2024, respectively);
- (2) the estimated number of residential units requiring Gas Supply Connection Services (being approximately 2,623, 2,470 and 5,893 for the three years ending 31 December 2024, respectively)
- (3) the estimated number of non-residential units requiring Gas Supply Connection Services (being approximately 4, 3 and 12 for the three years ending 31 December 2024, respectively).

The above-mentioned estimated number of residential units and non-residential units are based on the estimated gross floor area and other information obtained during negotiations with TEDA Group. The aggregate size of the estimated gross floor area and the number of residential and non-residential units requiring Gas Supply Connection Services are directly proportional to the amount of fees for such services.

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The Company uses estimated gross floor area, and hence the number of residential and non-residential units, requiring Gas Supply Connection Services as a basis of determining the TEDA Gas Supply Connection Annual Caps. Such calculation basis is consistent with those that had been recommended by the Pricing Department of the Tianjin Municipal Government though such recommended basis was no longer valid after 1 April 2018. As no new guidance has been issued, the management of the Company is of the view, and we concur, that this measuring basis remains to be the most appropriate methods and the Company has hence continued to use such standard to estimate the TEDA Gas Supply Connection Annual Caps, which is consistent with market practice;

- (b) the cost components of certain construction projects

When determining the fee of these construction projects, the management of the Company has taken into account the cost components including (i) the amount of construction work to be carried out, which includes the fees for sub-contracting the design, construction, supervision, purchasing of parts, equipment and materials for the construction and the maintenance of the facilities constructed; (ii) the daily maximum gas consumption volume for the gas connection facilities to be constructed; and (iii) the estimated profit margin for such projects based on the internal policy of the Company and historical profit margin subject to discussions with TEDA Group.

With reference to the historical range of profit margin in 2019-2021, the management of the Company consider profit margin is estimated to be between 50%-70% for 2022-2024. As discussed in the sub-section headed “Consideration under the TEDA Gas Supply Connection Agreement”, the historical profit margin for Gas Supply Connection Services completed during the years 2019-2021 for TEDA Group was above 50% which complied the pricing mechanism of the Company’s internal policy. Therefore, the management of the Company considers, and we concur, that using a profit margin based on the internal policy of the Company and with reference to historical profit margin for calculation of the TEDA Gas Supply Connection Annual Caps is reasonable.

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We have obtained and reviewed the relevant documents for 24 projects under the TEDA Gas Supply Connection Annual Caps, which accounted for 50% of the total projects under the TEDA Gas Supply Connection Annual Caps. Regarding the aforementioned transaction amounts under the Gas Connection Facilities Construction Engagement Agreements, we have reviewed the contracts and payment records. For estimates on the demand for Gas Supply Connection Services, we have reviewed supporting documents including (a) signed contracts; (b) construction plan and construction schedule provided by TEDA Group; and (c) official certificates of the construction projects granted to TEDA Group. The selected projects under the calculation of the TEDA Gas Supply Connection Annual Caps are found to be consistent with the aforementioned basis. Therefore, we are of the view that the estimation made by the Company in calculating the TEDA Gas Supply Connection Annual Caps for the three years ending 31 December 2024 are fair and reasonable.

(2) CONTINUING CONNECTED TRANSACTIONS WITH ASSOCIATES OF CHINA PETROLEUM & CHEMICAL CORPORATION

(A) SETTING NEW ANNUAL CAPS UNDER 2020 SINOPEC LONG-TERM GAS SUPPLY AGREEMENT

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of setting the New Annual Caps under 2020 Sinopec Long-Term Gas Supply Agreement, we have taken into account the following principal factors and reasons:

The 2020 Sinopec Long-Term Gas Supply Agreement and the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement

Background of and reasons for setting the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement

1. Background of the Group and BHI Tianjin

The Company is an investment holding company. The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

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BHI Tianjin is principally engaged in investment and reinvestment in industries such as gas processing and stove production and areas where foreign investment is permitted by the PRC, investment in areas that support the transmission and distribution of urban gas pipeline networks, assisting or acting on behalf of the investee companies for purchase of domestic products and those from abroad, as well as domestic and overseas sale of products produced by the investee companies, and providing after-sales services; investment in consultancy services and technology research and development; operation and sales of liquified natural gas for domestic users.

1.1 Background of Sinopec Gas and Sinopec Corp

Sinopec Gas is a branch company of Sinopec Corp, which is a joint-stock company incorporated in the PRC and is one of the largest integrated energy and chemical companies in the PRC that is mainly engaged in the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

The ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is a state-owned enterprise incorporated in the PRC principally engaged in the exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipment; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; and import and export of goods and technology.

According to the official website (<http://www.sinopecgroup.com>) of China Petrochemical Corporation, China Petrochemical Corporation is a large petroleum and petrochemical enterprise group with the registered capital of RMB326.5 billion. It is the largest oil and petrochemical products suppliers and the second largest oil and gas producer in China, the largest refining company and the second largest chemical company in the world. Its total number of gas stations ranks the second place in the world. It ranked third on Fortune's Global 500 List in 2020.

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2. *Background and Reasons for setting the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement*

2.1 Background of the 2020 Sinopec Long-Term Gas Supply Agreement

Reference is made to the announcement of the Company dated 23 April 2020 which announced that BHI Tianjin entered into the 2020 Sinopec Long-Term Gas Supply Agreement with Sinopec Gas, constituting connected transactions of the Company.

On 23 April 2020, BHI Tianjin entered into the 2020 Sinopec Long-Term Gas Supply Agreement with Sinopec Gas to govern the on-going transactions for the supply of gas by the Sinopec Gas Group to the BHI Tianjin Group. The BHI Tianjin Group will purchase natural gas from the Sinopec Gas Group, pursuant to the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

The 2020 Sinopec Long-Term Gas Supply Agreement and the existing annual caps for the period from 1 June 2020 to 31 December 2020 and for the year ending 31 December 2021 were approved by the Independent Shareholders. As the 2020 Sinopec Long-Term Gas Supply Agreement is effective until 31 December 2039, new annual caps for three years ending 31 December 2024 are proposed to be set to cover the transaction amounts to be incurred for the purchase of natural gas by the BHI Tianjin Group from the Sinopec Gas Group under the 2020 Sinopec Long-Term Gas Supply Agreement.

2.2 Reason for and benefits of setting the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement

As disclosed in the circular of the Company dated 12 June 2020 in relation to the continuing connected transaction contemplated under the 2020 Sinopec Long-Term Gas Supply Agreement with Sinopec Gas, the entering into of the 2020 Sinopec Long-Term Gas Supply Agreement is beneficial to the development of the Group in various aspects, including the following:

- (i) the Group can obtain a stable natural gas supply at more favourable prices, thus bolstering the competitiveness of the Group in the natural gas market and enhancing the development of the Group's natural gas business;

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- (ii) transactions under the 2020 Sinopec Long-Term Gas Supply Agreement will facilitate the interconnection and construction of natural gas infrastructures, strengthen the Group's access to the demand and supply markets, eliminate the bottleneck of guaranteed natural gas supply, enhance the swapping and mutual supply and guarantee abilities of resources, and increase the efficiency of use of facilities and resources allocation of the Group; and
- (iii) purchasing natural gas from the Sinopec Gas Group will optimise the structure of the Group's natural gas sources and create development opportunities for the Group's subsidiaries that operate outside Tianjin,

The Directors considered that the terms of the 2020 Sinopec Long-Term Gas Supply Agreement and transactions contemplated thereunder (including the historical annual caps under the 2020 Sinopec Long-Term Gas Supply Agreement for 2020 and 2021) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In assessing whether setting the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement is in the interests of the Company and the Shareholders as a whole, we have discussed with the management in relation to the aforesaid Company's reasons for setting the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement:

As stated in the annual report for the year ended 31 December 2020 of the Company, in 2021, the Group will continue to follow the PRC's "14th Five Year Plan" (《十四五規劃》) of the Central Government of the PRC in terms of energy planning and the guidance of the "2060 carbon neutral target", firmly grasp the transformation direction and pace of the energy industry, and continue to improve the construction of natural gas pipeline network and business development based on the existing geographical advantages of operation. Accordingly, the Group will optimize the layout and structure of energy production, improve the efficiency of oil and gas resources allocation, and fully carry out value-added businesses while maintaining the revenue growth of the existing businesses. Owing to the said business strategy of the Group, in the future, with the support from the ultimate parent companies of the two largest shareholders of the Company, TEDA and Sinopec Corp, the Group intended to integrate its own resources and advantages and further expand comprehensive energy businesses. We are of the view that, by setting the New Annual Caps for the 2020 Sinopec Long-Term Gas Supply Agreement, the Group can continue to enjoy the support from Sinopec Corp through purchasing natural gas from the Sinopec Gas Group and hence, build a long-term business partnership with Sinopec

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Gas Group. The 2020 Sinopec Long-Term Gas Supply Agreement not only enables the Group to promote the leapfrog development of the scale of operation and increase operating returns, but also improve the strategic layout of the regional development throughout the country which indicates the Company's determination to proactively respond to the "14th Five Year Plan".

As stated in the Letter from the Board, members of Sinopec Group that supply natural gas to BHI Tianjin Group under the 2020 Sinopec Long-Term Gas Supply Agreement are from the natural gas segment of Sinopec Corp (which provides sources of natural gas). The Group expects that the continuous focus on the sourcing of natural gas from Sinopec Corp, being the second largest oil and gas producer in China, by BHI Tianjin Group will allow the Group to leverage on the resource synergy advantages brought by the strategic resource-based shareholder, which will in turn optimise the structure of the Group's upper stream natural gas sources and will reduce the procurement cost of the Group's principal business.

In light of the above, we consider that setting the New Annual Caps for the 2020 Sinopec Long-Term Gas Supply Agreement falls within the ordinary and usual course of business of the Group and will continue to secure a stable upstream natural gas supply for the Group, which will therefore assist the Company in achieving supply chain synergy between the Group and the Sinopec Gas Group.

3. *Major terms of the 2020 Sinopec Long-Term Gas Supply Agreement*

Principal terms under the 2020 Sinopec Long-Term Gas Supply Agreement

On 23 April 2020, BHI Tianjin entered into the 2020 Sinopec Long-Term Gas Supply Agreement with Sinopec Gas to govern the on-going transactions for the supply of gas by the Sinopec Gas Group to the BHI Tianjin Group with particulars as follows:

The BHI Tianjin Group will purchase natural gas from the Sinopec Gas Group, pursuant to the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, from time to time.

The terms and conditions of the 2020 Sinopec Long-Term Gas Supply Agreement remain unchanged with the setting of the New Annual Caps. In arriving at our opinions on the fairness and reasonableness of setting the New Annual Caps under the 2020 Sinopec Long-Term Gas Supply Agreement, we, in particular, consider (i) the consideration under the 2020 Sinopec Long-Term Gas Supply Agreement; and (ii) analysis on the New Annual Caps as assessed below.

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Consideration under the 2020 Sinopec Long-Term Gas Supply Agreement

The consideration will be determined based on arm's length negotiations between the relevant parties according to (i) the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the regulatory notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by the NDRC from time to time; and (ii) the volume of natural gas to be purchased by the BHI Tianjin Group.

The pricing provisions in the regulatory notices issued by the NDRC apply to the prices for the sourcing of natural gas by the BHI Tianjin Group. The BHI Tianjin Group and the Sinopec Gas Group strictly comply with the pricing provisions in the regulatory notices issued by the NDRC from time to time, which include:

Name of notice	Relevant pricing provision (Note)
1. "Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage and Further Accelerating the Market-oriented Price Reform of the National Development and Reform Commission" (National Development and Reform Price 2015 No. 2688)* (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格[2015]2688號)) issued by NDRC on 18 November 2015	(i) With effect from 20 November 2015, the benchmark citygate prices for non-residential users in Tianjin is reduced to RMB2 per cubic meter. (ii) With effect from 20 November 2016, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.4 per cubic meter.

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Name of notice	Relevant pricing provision <i>(Note)</i>
2. “Notice on Straightening out the Citygate Prices of Natural Gas for Residential Usage of the National Development and Reform Commission” (National Development and Reform Price Regulation 2018 No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)) issued by NDRC on 25 May 2018	<p>(i) With effect from 10 June 2018, the natural gas price for residential users would be managed with the use of benchmark citygate price in lieu of maximum citygate price. The benchmark citygate price in Tianjin is reduced to RMB1.88 per cubic meter.</p> <p>(ii) With effect from 10 June 2019, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.256 per cubic meter.</p> <p>(iii) Seasonal price difference policy is introduced to encourage market-based transactions, whereby ceiling citygate price can be increased as appropriate (i.e. by more than 20% of the benchmark citygate price) in seasons with high natural gas consumption such as winter.</p>
3. “Notice on Adjusting the Benchmark Citygate Prices of Natural Gas from the National Development and Reform Commission” (National Development and Reform Price 2019 No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格[2019]562號)) issued by NDRC on 27 March 2019	With effect from 1 April 2019, the benchmark citygate price in Tianjin is reduced to RMB1.86 per cubic meter.

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The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities. We consider that the above pricing mechanism with benchmarks to the citygate prices of natural gas as stipulated by the relevant regulatory authority to the pricing of natural gas supply is appropriate.

As stated in the Letter from the Board in the circular dated 12 June 2020 of the Company on the 2020 Sinopec Long-Term Gas Supply Agreement, the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties.

As mentioned in the section below headed “Regarding the internal control measures governing the transactions under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement”, the Group, for each connected transaction under the 2020 Sinopec Long-Term Gas Supply Agreement, the Group will assess the relevant terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least two independent third parties in order to ensure that such transaction will be on normal commercial terms that are fair and reasonable. In addition, as part of our due diligence, we have obtained from the Company the breakdown of natural gas procurement cost by the members of the BHI Tianjin Group during the recent ten months ended 31 October 2021 and compared to the relevant breakdown of natural gas procurement cost for those as supplied by the Sinopec Gas Group during the respective period in order to assess the Group’s recent procurement cost from the Sinopec Gas Group and the independent third parties under the current natural gas market sentiments. We noted that the actual average procurement cost per cubic meter from the Sinopec Gas Group are relatively lower than the Group’s average natural gas procurement cost per cubic meter during the respective period. Therefore, we concurred with the Company that the pricing of the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties under the Group’s internal control mechanism.

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4. Analysis on the New Annual Caps

The following table summarises (i) the historical transaction amounts of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group; and (ii) the New Annual Caps for the three years ending 31 December 2024:

	For the period from 1 June 2020 to 31 December 2020		For the period from 1 January 2021 to 31 October 2021			
	Approximate historical transaction amount <i>(Note 1)</i> <i>(RMB)</i>	Existing annual cap amount <i>(Note 1)</i> <i>(RMB)</i>	Approximate historical transaction amount <i>(RMB)</i>	historical transaction amount (annualised) <i>(Note 2)</i> <i>(RMB)</i>	Existing annual cap amount <i>(RMB)</i>	
	Actual transaction amount of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group under the 2020 Sinopec Long-Term Gas Supply Agreement	225,780,910	544,113,000	613,948,000	736,737,600	1,339,181,000
	Utilisation rate <i>(Note 3)</i>		41.5%		55.0%	
				For the year ending 31 December		
			2022	2023	2024	
			New Annual Cap amounts			
			<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	
Estimated transaction amount of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group under 2020 Sinopec Long-Term Gas Supply Agreement			1,890,343,000	2,391,817,000	3,806,790,000	

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Notes:

1. As advised by the management of the Company, the amount of historical transaction and the existing annual cap for the year ended 31 December 2020 covers the transaction amounts under the 2020 Sinopec Long-Term Gas Supply Agreement for the period between 1 October 2020 (as the 2020 Sinopec Long-Term Gas Supply Agreement took effect in October 2020) and 31 December 2020.
2. The annualised historical transaction amount under the 2020 Sinopec Long-Term Gas Supply Agreement of approximately RMB736.7 million for the ten months ended 31 October 2021 is presented for illustration purpose only.
3. The utilisation rate is calculated as the actual transaction amount/annualised actual transaction amount under the 2020 Sinopec Long-Term Gas Supply Agreement divided by the existing annual caps under the 2020 Sinopec Long-Term Gas Supply Agreement for the respective year/period.

As stated in the Letter from the Board, the above New Annual Caps were determined with reference to:

1. the above historical transaction amounts of natural gas purchased by the BHI Tianjin Group from the Sinopec Gas Group;
2. the estimates on the sale prices of natural gas to be sourced from the Sinopec Gas Group with reference to the following:
 - (a) the benchmark citygate price set out in the following regulatory notice, being the latest regulatory notice on adjustments to the citygate prices of natural gas issued by the NDRC:

Name of notice

Relevant pricing provision

“Notice on Adjusting the Benchmark Citygate Prices of Natural Gas from the National Development and Reform Commission” (National Development and Reform Price 2019 No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格[2019]562號)) issued by NDRC on 27 March 2019

With effect from 1 April 2019, the benchmark citygate price in Tianjin is reduced to RMB1.86 per cubic meter.

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- (b) the sale price of natural gas to be sourced from the Sinopec Gas Group is mainly subject to a mark-up in the range up to 20% above the benchmark citygate price, according to the following regulatory notices:

Name of notice	Relevant pricing provision
1. “Notice on Lowering the Benchmark Citygate Prices of Natural Gas for Non-residential Usage and Further Accelerating the Market-oriented Price Reform from the National Development and Reform Commission” (National Development and Reform Price 2015 No. 2688)* (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》(發改價格[2015]2688號)) issued by NDRC on 18 November 2015	(i) With effect from 20 November 2015, the benchmark citygate prices for non-residential users in Tianjin is reduced to RMB2 per cubic meter. (ii) With effect from 20 November 2016, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.4 per cubic meter.

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Name of notice	Relevant pricing provision
2. “Notice on Straightening out the Citygate Prices of Natural Gas for Residential Usage from the National Development and Reform Commission” (National Development and Reform Price Regulation 2018 No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)) issued by NDRC on 25 May 2018	<p>(i) With effect from 10 June 2018, the natural gas price for residential users would be managed with the use of benchmark citygate price in lieu of maximum citygate price. The benchmark citygate price in Tianjin is reduced to RMB1.88 per cubic meter.</p> <p>(ii) With effect from 10 June 2019, on the basis of the lowered benchmark citygate price, ceiling citygate price of natural gas in Tianjin can be increased by up to 20%, i.e. RMB2.256 per cubic meter.</p> <p>(iii) Seasonal price difference policy is introduced to encourage market-based transactions, whereby ceiling citygate price can be increased as appropriate (i.e. by more than 20% of the benchmark citygate price) in seasons with high natural gas consumption such as winter.</p>

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3. the estimates on the demand for natural gas by the BHI Tianjin Group based on the following factors:
 - (a) the historical natural gas sales volume by the BHI Tianjin Group to downstream natural gas users;
 - (b) the information obtained from negotiations with key downstream natural gas users (including the estimated volume of natural gas to be required by such users);
 - (c) and the potential expansion of the PRC's natural gas market in these three years.

According to “13th Five-Year Plan for Energy Development (《能源發展十三五規劃》)”, in 2020, the total natural gas pipeline mileage in China has reached 100,000 kilometres, with an annual gas transmission capacity of above 400 billion cubic meters. Also, the urban gasification rate has reached 57% and the population with access to natural gas has reached 470 million. In 2021, Mainland China has made significant strategic achievements in the prevention and control of the COVID-19 pandemic, and its economic development has gradually returned to the right track. With the strategic targets of “carbon peak” and “carbon neutral” (the “**Dual Carbon Targets**”) proposed, the low-carbon transformation of the PRC's energy structure has fully accelerated, and the bridging and supporting role of natural gas in this historic process has become more prominent. According to the China Energy and Chemical Industry Development Report 2021, during the “14th Five Year Plan” period, natural gas, as a low-carbon energy, will maintain an average annual consumption growth rate of over 7%. We concurred with the Company that the above increasing trend in the New Annual Caps for the natural gas procurement transactions is in line with the expansion of the RPC's natural gas market.

The Group continued to seize the huge market opportunities brought by the national policy direction and continued to achieve outstanding results in the first half of 2021. In addition, the Group made aggressive efforts in exploring new districts and market projects and signed development cooperation agreements with a number of new markets. We consider that the above increasing trend in the New Annual Caps for the natural gas procurement transactions between the BHI Tianjin Group and the Sinopec Gas Group will consummate the Group's above aggressive expansion plan which will enhance its profitability. The profit attributable to owners of the Company was HK\$231,116,000 during the six months ended 30 June 2021, representing an increase of HK\$87,226,000 or 61% as compared to HK\$143,890,000 for the corresponding period last year. Such increase was mainly due to the significant increase of revenue recorded from the sales of piped natural gas construction and gas pipeline installation by the Group as a result of the vigorous promotion of the Dual Carbon Targets and environmental protection and ecological policies.

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Based on the above information provided by the Company, we note that the New Annual Cap for the year ending 31 December 2022 will increase substantially from the historical transaction amounts for the year ended 31 December 2021, and there will be a further increase in the New Annual Cap for the year ending 31 December 2023 and 2024. As advised by the Company, the historical natural gas sales volume by the Group to downstream natural gas users was on the rise, where the estimated sales volume of piped natural gas for the year ending 31 December 2022 recorded substantial increases as compared to the same for the year ended 31 December 2021. Similarly, the natural gas sales volume of piped natural gas of the Group for three years ending 31 December 2024 will demonstrate homothetical increasing year-on-year trend under the Company's projection. As advised by the Company, the increasing trend of the estimated sales volume of piped natural gas is in line with the rapid growth of natural gas consumption in Tianjin and the current expansion plan of the Group. We have obtained and reviewed the schedule for the breakdown of estimation on New Annual Caps based on the expected demand from downstream natural gas users of each operating regions of the Group. It is noted that the expected procurement amount in Tianjin region of the Group will account for over 70% of the total estimated procurement amount by the Group for each of the three years ending 31 December 2024. Upon our individual investigation, we noted that the Company has made seven voluntary announcements in 2021 up to the Latest Practicable Date in relation to (i) provision of gas supply to large industrial enterprises in the fields of steel and glasses in Tianjin and Tangshan; (ii) provision of natural gas supporting facilities construction services to Tianjin Airport Economic Area; (iii) provision of coal-to-gas conversion project construction services to heating stations in Tianjin; (iv) provision of natural gas supporting facilities construction services and natural gas supply to the production base of a large new material industrial enterprise in the industrial park invested by Gaoan City People's Government; (v) provision of natural gas supply to the hot spring tourism area in Tianjin.

After review of the schedule for the breakdown of estimation on the New Annual Caps based on the expected demand from downstream natural gas users of each operating regions of the Group and the discussion with the management of the Group, we understand the majority of natural gas procurement under the New Annual Caps for the years ending 31 December 2022 and 2023 are supported by the confirmed contracts/orders up to the Latest Practicable Date and the existing broad customer bases of the Group.

As further confirmed by the Company, it is expected that similar business expansion plans will continue to execute in the recent years which is consistent with the business strategy of the Company to pursue constant organic growth by expanding the business.

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As mentioned in the section of this letter headed “Consideration under the 2020 Sinopec Long-Term Gas Supply Agreement”, the sale price of natural gas to be sourced from the Sinopec Gas Group is with reference to the benchmark citygate price set out in the relevant regulatory notice, being the latest regulatory notice on adjustments to the citygate prices of natural gas issued by the NDRC. The individual agreements for the sale and purchase of natural gas, to be entered into between the BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas or its subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties. In addition, Sinopec Gas is a branch company of Sinopec Corp and the ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is the second largest oil and gas producer in China. Having considered (i) the pricing for the individual agreements for the sale and purchase of natural gas to be entered into between the BHI Tianjin Group and the Sinopec Gas Group is on terms no less favourable to the Group than those available to the Group from independent third parties; and (ii) the ultimate holding company of Sinopec Corp is China Petrochemical Corporation which is the second largest oil and gas producer in China with extensive natural gas supply networks, we consider that the Group’s intention to consolidate more of its overall procurement of natural gas with the Sinopec Gas Group for its existing demands over the coming years will not only decrease the Group’s overall natural gas procurement costs, but will also create supply chain synergy between the Sinopec Gas Group and the BHI Tianjin Group by utilising the extensive natural gas supply networks of the China Petrochemical Corporation for the BHI Tianjin Group’s above-mentioned business expansion in the PRC.

The New Annual Cap for the year ending 31 December 2022 amounting to approximately RMB1,890.3 million represents the estimated demand for the natural gas supplied by the Sinopec Gas Group for the period between 1 January 2022 and 31 December 2022. The New Annual Cap for the year ending 31 December 2023 and 2024 will further increase to approximately RMB2,391.8 million and RMB3,806.8 million respectively. On the basis of the above analysis on (i) the rapidly increasing quantity factor, which is in line with the Group’s expansion plan and business growth; and (ii) the relatively favourable price factor, which shall be based on the benchmark citygate price set out in the relevant regulatory notice and be no less favourable than those available for the purchase of natural gas from independent third parties under the Group’s internal control mechanism, we consider that the New Annual Caps in respect of the 2020 Sinopec Long-Term Gas Supply Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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(B) THE MASTER AGREEMENTS FOR NATURAL GAS SUPPLY TO SINOPEC GROUP AND TRANSMISSION OF NATURAL GAS TO SINOPEC GAS GROUP AND SBI GROUP

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the master agreements for natural gas supply to Sinopec Group and transmission of natural gas to Sinopec Gas Group and SBI Group, we have taken into account the following principal factors and reasons:

(I) The Sinopec Gas Supply Agreement

Background of and reasons for entering into the Sinopec Gas Supply Agreement

1. Background of the Group, BHI Tianjin and relevant subsidiaries for the gas supply arrangement

The Company is an investment holding company. The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

BHI Tianjin is principally engaged in investment and reinvestment in industries such as gas processing and stove production and areas where foreign investment is permitted by the PRC, investment in areas that support the transmission and distribution of urban gas pipeline networks, assisting or acting on behalf of the investee companies for purchase of domestic products and those from abroad, as well as domestic and overseas sale of products produced by the investee companies, and providing after-sales services; investment in consultancy services and technology research and development; operation and sales of liquified natural gas for domestic users.

Tianjin Clean Energy is the wholly-owned subsidiary of the Company which is principally engaged in investment in the transmission and distribution of urban gas pipeline networks, pipeline natural gas supply, pipeline natural gas supporting engineering services, and gas-related equipment and facility maintenance services. It has extensive high-voltage and medium-voltage pipeline network of approximately 500 kilometres in total, mainly covering different regions in Tianjin.

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Deqing Binhai Gas Co., Ltd. (“**Deqing Binhai**”) is a non-wholly-owned subsidiary of the Company principally engaged in pipeline natural gas supply, pipeline natural gas supporting engineering services, and gas-related equipment and facility maintenance services. Deqing Binhai has obtained 30-year exclusive franchise rights for pipeline gas in various towns of Deqing County and built certain number of high and medium pressure regulating stations, with an in-service high-pressure pipeline network of about 22 kilometres and a medium-voltage pipeline network of approximately 287 kilometres. All pressure regulating stations are equipped with advanced and informationised means of operation and maintenance management system.

Tangshan Binhai Gas Co., Ltd. (“**Tangshan Binhai**”) is a wholly-owned subsidiary of the Company and principally engaged in investment construction, operation of urban gas pipeline networks, provision natural gas connection service and sale of natural gas. Tangshan Binhai owns a medium-voltage pipeline network of approximately 154 kilometres which is equipped with advanced and informationised means of operation and maintenance management system.

1.1 Background of Sinopec Group, Sinopec Gas and Sinopec Corp

Sinopec Gas is a branch company of Sinopec Corp, which is a joint-stock company incorporated in the PRC and is one of the largest integrated energy and chemical companies in the PRC that is mainly engaged in the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.

The ultimate holding company of Sinopec Corp is China Petrochemical Corporation, which is a state-owned enterprise incorporated in the PRC principally engaged in the exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipment; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; and import and export of goods and technology.

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SBI is a joint venture company indirectly held as to 50% by the Company and as to 50% by Sinopec Corp. SBI is principally engaged in the construction and operation of CNG terminals, CNG and LNG vehicle refuelling sub-stations, LNG supply, charging piles and urban gas transmission and distribution pipeline networks and other related services in Tianjin and its neighbouring areas.

Sinopec Lubricant Binhai is a branch company of Sinopec Lubricant, which is principally engaged in the production and sale of refined petroleum products, lubricant base oil, and petrochemical materials. Sinopec Lubricant is a wholly-owned subsidiary of Sinopec Corp.

Upon our individual work done in respect of due diligence on relevant associates of Sinopec Group which shall enter into agreements with the BHI Tianjin Group under the Sinopec Gas Supply Agreement, we noted that (i) those associates are principally engaged in, including but not limited to, gasoline station, heating station, production of industrial supplies, pipeline network construction and maintenance, manufacturing of oil-related products; and (ii) those associates are based in Tianjin, Deqing County and Tangshan city amongst the pipeline network of the above subsidiaries of the Company.

2. *Background and Reasons for entering into the Sinopec Gas Supply Agreement*

2.1 Background of the Sinopec Gas Supply Agreement

On 8 November 2021, BHI Tianjin has entered into the Sinopec Gas Supply Agreement with Sinopec Gas, Sinopec Lubricant Binhai and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will supply natural gas to Sinopec Group pursuant to agreements to be entered into from time to time.

2.2 Reason for and benefits of entering into the Sinopec Gas Supply Agreement

As stated in the Letter from the Board, Sinopec Corp is a large scale state-owned conglomerate with its subsidiaries spreading across the PRC. The Group will include such subsidiaries of Sinopec Corp into the list of potential customers in the course of expansion of its principal business. Therefore, the transactions contemplated under the Sinopec Gas Supply Agreement can continue to increase the natural gas sales volume and the operating sales profit of the Group. Further, such transactions will also facilitate the Group's collaboration with its resource-intensive strategic shareholder, Sinopec Corp, which is conducive to promoting their complementary strengths in the industries and achieving a win-win situation.

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The Directors consider that the terms of the Sinopec Gas Supply Agreement and transactions contemplated thereunder (including the Sinopec Gas Supply Annual Caps under the Sinopec Gas Supply Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In assessing whether entering into the Sinopec Gas Supply Agreement is in the interests of the Company and the Shareholders as a whole, we have discussed with the management in relation to the aforesaid Company's reasons for entering into the Sinopec Gas Supply Agreement:

Apart from the benefits mentioned in the sub-sectioned headed "Reason for and benefits of entering into the 2020 Sinopec Long-Term Gas Supply Agreement" of this letter, in particular, the resource synergy advantages brought by the strategic resource-based shareholder, optimisation of the structure of the Group's upper stream natural gas sources and cost reduction of the Group's principal business, members of Sinopec Group that purchase natural gas from the BHI Tianjin Group under the Gas Supply Agreement shall enable the Sinopec Group to leverage on the comprehensive pipeline network owned by the Group to facilitate its gas transmission. Simultaneously, the Group expects that the continuous focus on the supply of natural gas to the Sinopec Group will allow the Group to intensify the aforementioned resource synergy advantages and optimise the structure of the Group's downstream natural gas sales and will further protect revenue channel of the Group's principal business. As such, the aforesaid collaboration between the Group and Sinopec Group shall be beneficial to both parties to fulfil their respective business goal and contribute to sustainable business growth for both parties.

On the other hand, with reference to the Letter from the Board, members of Sinopec Group that procure natural gas from BHI Tianjin Group under the Sinopec Gas Supply Agreement are users of natural gas. As mentioned in the above section headed "1. Background of the Group, BHI Tianjin and relevant subsidiaries for the gas supply arrangement" of this letter, the BHI Tianjin Group has developed comprehensive pipeline networks over the years in Tianjin, Tangshan and Deqing, which shall be used to facilitate stable and reliable supply of natural gas as called for in the 14th Five-Year Plan. From

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the perspective of BHI Tianjin Group, such members of Sinopec Group have the same status as other business and industrial users that purchase natural gas from BHI Tianjin Group, as those members of Sinopec Group become the customers of BHI Tianjin Group because their business coverage are located within the pipeline networks of BHI Tianjin Group as mentioned in the above sub-section headed “Background of Sinopec Group, Sinopec Gas and Sinopec Corp” of this letter. By entering into of the Sinopec Gas Supply Agreement, the BHI Tianjin Group can leverage on the geographical advantage to develop its business and carry out market expansion; and the transactions contemplated under the Sinopec Gas Supply Agreement are expected to increase the operating sales profit of the Group.

As discussed in the above sub-sectioned headed “Background of the Group, BHI Tianjin and relevant associates for the gas supply arrangement” of this letter, BHI Tianjin, Tianjin Clean Energy, Deqing Binhai and Tangshan Binhai, being the suppliers of natural gas to Sinopec Group under the Sinopec Gas Supply Agreement, have been accumulating experience in the natural gas supply industry in the PRC for years, and the comprehensive pipeline network established has spanned over the regions in Tianjin, Deqing County and Tangshan City. Such high-quality pipeline network with advanced system should be utilised to facilitate the natural gas supply across the said districts in the PRC which corresponds to the 14th Five-Year in relation to securing reliable and stable supply of natural gas. At the same time, the relevant members of the Sinopec Group are located in the same areas as BHI Tianjin, Tianjin Clean Energy, Deqing Binhai and Tangshan Binhai, which indicates a great opportunity for both parties to enter into the Sinopec Gas Supply Agreement in order to establish a cooperating relationship and coincidentally match the demand-supply of natural gas between both parties.

As mentioned before, Sinopec Corp is a large scale state-owned conglomerate and is one of the most significant enterprises in the PRC focusing on petroleum exploration, extraction, refining, transportation, sales, and production of chemical products, covering the entire upstream, midstream, and downstream processes of petroleum production. Moreover, Sinopec Corp has a large number of subsidiaries engaged in industry specialised in energy and chemical industry. Therefore, the entering into of the Sinopec Gas Supply Agreement not only marks the mutual consensus between the Group and Sinopec Group to facilitate the corporation and pave the way for potential long term business partnership the Group and the Sinopec Group, but is also beneficial to the Group for its business development and market expansion, which will in turn increase the Group’s sales revenue and profits.

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On the basis of the above, we concur with the Company that entering into the Sinopec Gas Supply Agreement is in the interests of the Company and the Shareholders as a whole.

3. *Major terms of the Sinopec Gas Supply Agreement*

Principal terms under the Sinopec Gas Supply Agreement

On 8 November 2021, BHI Tianjin entered into the Sinopec Gas Supply Agreement with Sinopec Gas, Sinopec Lubricant Binhai and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will supply natural gas to Sinopec Group pursuant to agreements to be entered into from time to time, with particulars as follows:

BHI Tianjin Group will supply natural gas to Sinopec Group pursuant to the individual agreements for the supply of natural gas to be entered into from time to time.

Manner of payment under the Sinopec Gas Supply Agreement

The manner of payment is governed by the individual agreements for the supply of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas, Sinopec Lubricant Binhai or SBI or their respective subsidiaries or associates on the other hand, from time to time.

The manner of payment under the Sinopec Gas Supply Agreement is in form of advance payment. Invoices will be issued to the customers pursuant to the amount of natural gas supplied to the relevant members of the Sinopec Group for monthly settlement.

To assess the fairness and reasonableness of the said manner of payment under the Sinopec Gas Supply Agreement, we have considered the below factors:

As confirmed by the Company, since 2014, the Group has been introducing an advance payment arrangement for supplying natural gas and in order to ensure that its customers will honor their payment obligations. Therefore, under the Sinopec Gas Supply Agreement, the individual contracts to be entered between the relevant members of the BHI Tianjin Group and the Sinopec Group specify that the customers (i.e. the relevant members of the Sinopec Group) would have to top up their accounts with reference to the amount of their monthly maximum gas volume and natural gas consumption

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plan. If the prepayment is used up, gas supply to the customer will cease. The Group will send a reminder to the customer when the advance payment of charges is nearly used up. As confirmed by the management of the Company, the deposits will be treated as prepayment of natural gas sale. In light of the said payment method, we are of the view that the manner of payment is in line with the Company's intention to secure payment through prepayment deposit as a way to offset the payment obligation.

Adopting the prepayment arrangement for the natural gas sales under the Sinopec Gas Supply Agreement is favourable to the Group because it is beneficial to the sell in various ways, including (i) settlement of natural gas sales receivable on the purchasers would be completed in advance to prevent potential default and bad debt expenses to be occurred in the future; and (ii) reduction in the risk of over-use of natural gas which may result in the customers refusing to make the payment or even possible lawsuit due to disagreement of relevant settlement. In addition, we have selected and reviewed two samples of contracts with SBI and Hebei Luyuan Thermal Power Development Company Limited Tangshan Lutai Economic Development Branch Company* (河北綠源地熱能開發有限公司唐山蘆台經濟開發區分公司) (“**Hebei Luyuan Tangshan**”) of the Sinopec Group, which cover all the counterparties under the existing annual cap for the year ending 31 December 2021 for Sinopec gas supply as indicated below. It is noted that the respective terms on manner of payment is in line with the above prepayment arrangement of the Group.

Based on the above, in particular, the manner of payment on a monthly basis through advance payment provide protection to the Group by guaranteeing the counterparties to honor their obligation, we are of the view that the manner of payment under the Sinopec Gas Supply Agreement is fair and reasonable.

Consideration under the Sinopec Gas Supply Agreement

As stated in the Letter from the Board, the consideration will be determined based on the volume of gas supplied by BHI Tianjin Group to Sinopec Group per month according to the meter readings and the price for the supply of natural gas. The price for the supply of natural gas under the Sinopec Gas Supply Agreement will be determined based on arm's length negotiations between the relevant parties, with reference to (i) the notice on adjustments to the benchmark citygate prices of natural gas (i.e. benchmark trading prices between pipeline natural gas suppliers and municipal natural gas enterprises or direct users) as stipulated by NDRC from time to time; (ii) the notice on adjustments to the price of natural gas consumed by non-residential users as stipulated by the PRC government authorities from time to time; and (iii) the price of natural gas purchased by the Group from the upstream natural gas suppliers.

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The individual agreements for the supply of natural gas to be entered into by BHI Tianjin Group with Sinopec Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas to independent third parties.

The pricing provisions in the regulatory notices issued by the NDRC apply to the prices for the sourcing of natural gas by the BHI Tianjin Group. The BHI Tianjin Group and the Sinopec Group strictly comply with the pricing provisions in the regulatory notices issued by the PRC government authorities from time to time, which include:

Name of notice	Relevant pricing provision
1. “Notice on Adjusting the Sale Price of Pipeline Natural Gas for Non-residential Usage by Stage from the Development and Reform Bureau of Deqing Province” (De Development and Reform Fa 2021 No. 12)* (《德清縣發展和改革局關於階段性調整非居民用管道天然氣銷售價格的通知》(德發改發[2021]12號)) issued by the Development and Reform Bureau of Deqing Province on 25 April 2021	For the period from 1 April 2021 to 31 October 2021, the highest sale price of natural gas for non-residential usage in Deqing province is adjusted to RMB2.96 per cubic meter, and each gas company is allowed to negotiate the final price within the range not exceeding the highest sale price according to the actual gas usage condition of the corporate user.
2. “Notice on the Sale Price of Pipeline Natural Gas for Nonresidential Usage from the Development and Reform Commission of Tangshan City”* (《唐山市發展和改革委員會關於非居民管道天然氣銷售價格的通知》) issued by the Development and Reform Commission of Tangshan City on 19 August 2021 (the “ Tangshan Regulatory Notice ”)	Each gas operation enterprise may add RMB0.88 per cubic meter on top of the procurement cost for natural gas for nonresidential usage as the sale price.

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Name of notice	Relevant pricing provision
3. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the City Development and Reform Commission” (Jin Development and Reform Price Zong 2021 No. 152)* (《市發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津發改價綜[2021]152號)) issued by TDRC on 27 May 2021	With effect from 1 June 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter, and the price of natural gas for concentration on heat supply is adjusted to RMB2.33 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.
4. “Notice on Adjusting the Sale Price of Natural Gas for Non-residential Usage from City Natural Gas Pipe Network of the Area Development and Reform Commission” (Jin Bin Development and Reform Price Guan Fa 2021 No. 5)* (《區發展改革委關於調整城市燃氣管網非居民天然氣銷售價格的通知》(津濱發改價管發[2021]5號)) issued by Tianjin Binhai New Area Development and Reform Commission on 28 May 2021	With effect from 1 June 2021 to 31 October 2021, the price of natural gas for ordinary industrial, commercial and other usage is adjusted to RMB2.62 per cubic meter. The enterprises operating gas supply may determine their sale price of natural gas on their own discretion on the basis that such sale price shall not exceed the above benchmark prices.

The regulatory notices are updated from time to time by the PRC government authorities without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the regulatory authorities. We consider that the above pricing mechanism with benchmarks to the sales prices of natural gas as stipulated by the relevant regulatory authority to the pricing of natural gas supply is appropriate.

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As stated in the Letter from the Board, the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas, Sinopec Lubricant Binhai or SBI or their respective subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the supply of natural gas from independent third parties. As mentioned in the section below headed “Regarding the internal control measures governing the transactions under the TEDA Gas Supply Agreement, the TEDA Gas supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement”, the Group, for each connected transaction under the Sinopec Gas Supply Agreement, will assess the relevant terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged by at least two independent third party natural gas suppliers in order to ensure that such transaction will be on normal commercial terms that are fair and reasonable. In order to further assess the terms of the Sinopec Gas Supply Agreement and to ensure that prices charged to the Sinopec Group are not less favorable than those charged to independent third party customers, we have selected and reviewed two samples of contracts with SBI and Hebei Luyuan Tangshan of the Sinopec Group, which represented 100% of the existing annual cap for the year ending 31 December 2021 of Sinopec gas supply as indicated below. We noted that the terms offered by the Group to Hebei Luyuan Tangshan were comparable to those offered to the independent third parties and is in line with the pricing provisions in the regulatory notices issued by the Development and Reform Commission of Tangshan City. Under the gas supply contract with SBI, Sinopec Group mainly leveraged on the comprehensive pipeline network owned by the Group to facilitate the gas transmission from Sinopec Gas Group to SBI. Having considered that (i) the pricing is in line with the pricing provisions in the regulatory notices issued by the TDRC; (ii) the relevant procurement cost of natural gas purchased by the Group from the Sinopec Gas Group to supply to SBI; (iii) the transaction under the Gas Supply Agreement with SBI can increase the natural gas sales volume and the operating sales profit of the Group; and (iv) in terms of the natural gas sales business, the natural gas volume to be sold to SBI can be integrated into the upstream comprehensive procurement indicator of the Group, thus enhancing the bargaining power of the Group with the upstream natural gas suppliers, we consider the discount provided by the Group to SBI in comparison to other independent third parties is justifiable.

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Therefore, we concurred with the Company that the pricing of the individual agreements for the supply of natural gas to be entered into by the Group with Sinopec Group will be on normal commercial terms that are fair and reasonable.

4. *Analysis on the Sinopec Gas Supply Annual Caps*

The following table summarises (i) the historical transaction amounts of natural gas supplied by Tianjin Clean Energy to SBI under the 2020 Sinopec Gas Supply Agreement; and (ii) the Sinopec Gas Supply Annual Caps for the three years ending 31 December 2024:

	For the period from 9 November 2020 to 31 December 2020		For the period from 1 January 2021 to 31 October 2021		
	Approximate historical transaction amount <i>(Note 1)</i> <i>(RMB)</i>	Existing annual cap amount <i>(Note 1)</i> <i>(RMB)</i>	Approximate historical transaction amount <i>(RMB)</i>	historical transaction amount (annualised) <i>(Note 2)</i> <i>(RMB)</i>	Existing annual cap amount <i>(RMB)</i>
Actual transaction amount of natural gas supplied by the Group to SBI under the 2020 Sinopec Gas Supply Agreement and Hebei Luyuan Tangshan under the gas supply agreement dated 29 October 2021	8,277,750	8,583,540	16,616,000	19,939,200	51,718,520
Utilisation rate <i>(Note 3)</i>		96.4%		38.6%	
			For the year ending 31 December		
			2022	2023	2024
			Sinopec Gas Supply Annual Cap amounts		
			<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Estimated transaction amount of natural gas supplied by the BHI Tianjin Group to the Sinopec Group under the Sinopec Gas Supply Agreement		85,117,000	82,049,000		82,152,000

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Notes:

1. The amount of historical transaction and the existing annual cap for the year ending 31 December 2020 covers the transaction amounts under the 2020 Gas Supply Agreement for the period between 9 November 2020 (as the 2020 Sinopec Gas Supply Agreement took effect in November 2020) and 31 December 2020.
2. The annualised historical transaction amount under the 2020 Sinopec Gas Supply Agreement of approximately RMB19.9 million for the ten months ended 31 October 2021 is presented for illustration purpose only.
3. The utilisation rate is calculated as the actual transaction amount/annualised actual transaction amount under the 2020 Sinopec Gas Supply Agreement divided by the existing annual caps under the 2020 Sinopec Gas Supply Agreement and the gas supply agreement with Hebei Luyuan Tangshan under dated 29 October 2021 for the respective year/period.

With reference to the Letter from the Board, the above Sinopec Gas Supply Annual Caps were determined with reference to:

1. the historical transaction amounts of natural gas supplied by the Group to SBI and Hebei Luyuan Tangshan, being the Sinopec Group members; and the relevant annual caps;
2. estimates on the sale price of natural gas to be supplied by BHI Tianjin Group to the Sinopec Group with reference to the following:
 - (a) the benchmark prices of natural gas consumed by non-residential users as stipulated in the regulatory notices issued by the PRC government authorities; and
 - (b) the prevailing sale prices of natural gas supplied by the Group to its non-residential customers;
3. estimates on the demand for natural gas by Sinopec Group based on the following factors:
 - (a) the procurement and cooperation plan agreed between Sinopec Group and the Group; and
 - (b) the business development of Sinopec Group in Tianjin, Tangshan and Deqing.

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To assess the fairness and reasonableness of the Sinopec Gas Supply Annual Caps, we have discussed with the management of the Company and were given to understand that the Sinopec Gas Supply Annual Caps for the three years ending 31 December 2024 are mainly estimated based on the annual natural gas sales plans prepared by the BHI Tianjin Group with reference to (i) the latest regulatory notice on adjustments to the sales prices of natural gas issued by the TDRC and the Development and Reform Commission of Tangshan City, and (ii) the business plan of the Sinopec Group which resulted in the demands for natural gas by the Sinopec Group in Tianjin, Deqing and Tangshan of the PRC.

Based on the above information provided by the Company, we note that the Sinopec Gas Supply Annual Cap for the year ending 31 December 2022 will increase substantially from the historical transaction amounts for the year ending 31 December 2021, and the Sinopec Gas Supply Annual Cap for the year ending 31 December 2023 and 2024 will remain stable. It is expected that the gas supply to the Sinopec Group for the year ending 31 December 2022 will be on the rise as a result of (i) estimation of increased business activity of the Sinopec Group arising from economic recovery; (ii) increased number of relevant Sinopec Group members for purchase of natural gas from the Group; and (iii) business development of the Sinopec Group in Tianjin, Tangshan and Deqing. Upon our individual due diligence work, we noted that there will be the number of Sinopec Group members to be included in the Sinopec Gas Supply Agreement will be increased to five under the Sinopec Gas Supply Annual Caps in comparison to two under the above relevant cap during the year ending 31 December 2021.

Furthermore, the substantial increment of sales volume to the Sinopec Group for the year ending 31 December 2022 is consistent with the growth of the consumption and/or sales of piped natural gas to downstream customers by the Sinopec Group. According the annual report of the Sinopec Corp for the year ended 31 December 2020, the Sinopec Corp expected that the demand for natural gas and petrochemical products will continue to grow and will adhere to the principle of “sustainable development of crude oil and rapid growth of natural gas business”, continue to strengthen high-quality exploration and profitable production, reduce cost.

LETTER FROM OCTAL

As mentioned in the sub-section headed “Consideration under the Sinopec Gas Supply Agreement”, the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas, Sinopec Lubricant Binhai or SBI or their respective subsidiaries or associates on the other hand, will be on normal commercial terms that are fair and reasonable. In addition, the Company intends to build a long term business partnership with Sinopec Group in regard to the natural gas supply and procurement. Having considered (i) the pricing for the individual agreements for the sale and purchase of natural gas to be entered into between the BHI Tianjin Group and the Sinopec Group will be on normal commercial terms that are fair and reasonable; and (ii) the potential benefits to the Company after establishment of the long term corporation with Sinopec Group by entering into the Sinopec Gas Supply Agreement, we consider that the Group’s intention to remain stable sales volume with the Sinopec Group over the coming years will not only provide continuous support for the Group’s revenue from overall natural gas business, but will also create supply chain synergy between the Sinopec Group and the BHI Tianjin Group by utilising the extensive natural gas supply networks of the BHI Tianjin Group to support the business plan of the parent company (i.e. Sinopec Group) in the PRC.

As demonstrated in the above table, the Gas Supply Annual Cap for the year ending 31 December 2022 amounting to approximately RMB85.1 million represents the estimated demand for the natural gas by the Sinopec Group for the period between 1 January 2022 and 31 December 2022. The Sinopec Gas Supply Annual Caps for the year ending 31 December 2023 and 2024 will remain roughly at the level as approximately RMB82.0 million and RMB82.2 million respectively which is aligned with both parties’ consensus regarding the stable supply and procurement of natural gas over the coming years. In addition, we understand from the Company that it is the intention of both the BHI Tianjin Group and Sinopec Group to stabilise the natural gas supply from BHI Tianjin Group to the Sinopec Group over the coming years, and therefore the Sinopec Gas Supply Annual Caps for the years ending 31 December 2023 and 2024 will stay at stable level as the Sinopec Gas Supply Annual Caps for the year ending 31 December 2022. As advised by the management of the Group, both parties intend to construct a long term business partnership in respect of natural gas supply and procurement after the entering into of the Sinopec Gas Supply Agreement.

Taking into account the above, we consider that the Sinopec Gas Supply Annual Caps in respect of the Sinopec Gas Supply Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM OCTAL

(II) The Sinopec Gas Transmission Agreement

Background of and reasons of entering into the Sinopec Gas Transmission Agreement

1. Background of the Group and BHI Tianjin

The Company is an investment holding company. The Group is principally engaged in the sales of piped natural gas, construction and gas pipeline installation service, gas passing through service and sales of bottled natural gas.

BHI Tianjin is principally engaged in investment and reinvestment in industries such as gas processing and stove production and areas where foreign investment is permitted by the PRC, investment in areas that support the transmission and distribution of urban gas pipeline networks, assisting or acting on behalf of the investee companies for purchase of domestic products and those from abroad, as well as domestic and overseas sale of products produced by the investee companies, and providing after-sales services; investment in consultancy services and technology research and development; operation and sales of liquified natural gas for domestic users. BHI Tianjin and its subsidiaries have extensive high-voltage and medium-voltage pipeline network of approximately 500 kilometres in total, mainly covering different regions in Tianjin.

1.1 Background of SBI

SBI is a joint venture company indirectly held as to 50% by the Company and as to 50% by Sinopec Corp. SBI is principally engaged in the construction and operation of CNG terminals, CNG and LNG vehicle refuelling sub-stations, LNG supply, charging piles and urban gas transmission and distribution pipeline networks and other related services in Tianjin and its neighbouring areas.

2. Background and Reasons for entering into the Sinopec Gas Transmission Agreement

2.1 Background of the Sinopec Gas Transmission Agreement

On 8 November 2021, BHI Tianjin has entered into the Sinopec Gas Transmission Agreement with Sinopec Gas and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will transmit natural gas to Sinopec Group and SBI Group pursuant to the individual agreements to be entered into from time to time.

LETTER FROM OCTAL

2.2 Reason for and benefits of entering into the Sinopec Gas Transmission Agreement

Sinopec Corp (of which Sinopec Gas is a branch company) is a large scale state-owned conglomerate with its subsidiaries spreading across the PRC. The Group will include such subsidiaries of Sinopec Gas and SBI into the list of potential customers in the course of expansion of its principal business. The transmission of natural gas for Sinopec Gas Group and SBI Group, on normal commercial terms or better and terms that are no less favourable to the Group than those provided by the Group to independent third parties, increases the revenue of the Group and is in the interests of the Group as a whole.

The Directors consider that the terms of the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the Sinopec Gas Transmission Annual Caps under the Sinopec Gas Transmission Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In assessing whether entering into the Sinopec Gas Transmission Agreement is in the interests of the Company and the Shareholders as a whole, we have discussed with the management in relation to the aforesaid Company's reasons for entering into the Sinopec Gas Transmission Agreement.

As mentioned before, Sinopec Corp is a large scale state-owned conglomerate and is one of the most significant enterprises in the PRC focusing on petroleum exploration, extraction, refining, transportation, sales, and production of chemical products, covering the entire upstream, midstream, and downstream processes of petroleum production. Moreover, Sinopec Corp has a large number of subsidiaries engaged in industry specialized in energy and chemical industry. Therefore, the entering into of the Sinopec Gas Transmission Agreement not only indicates the sincere intention of the Group to provide support for one of the substantial shareholders of the Company to facilitate its business development plan, but also is beneficial to the Group for utilizing its existing pipeline network and broaden the revenue base, which will in turn increase the Group's sales revenue and profits. In addition, The Company also believes that the entering into of the Sinopec Gas Transmission Agreement with Sinopec Gas and SBI is beneficial to all parties in responding positively to the 14th Five-Year call for guarantee of the reliable and stable supply of natural gas to achieve high-quality development in the PRC, and will also be conducive to increasing the revenue and profit of the Group.

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On the basis of the above, we concur with the Company that entering into the Sinopec Gas Transmission Agreement is in the interests of the Company and the Shareholders as a whole.

3. *Major terms of the Sinopec Gas Transmission Agreement*

Principal terms under Sinopec Gas Transmission Agreement

On 8 November 2021, BHI Tianjin entered into the Sinopec Gas Transmission Agreement with Sinopec Gas and SBI for a term from 1 January 2022 to 31 December 2024, under which BHI Tianjin Group will provide natural gas transmission services to Sinopec Gas Group and SBI Group pursuant to the individual agreements for the transmission of natural gas to be entered into from time to time. Such natural gas is purchased and obtained by Sinopec Gas Group and SBI Group from upstream natural gas suppliers, and will be transmitted to Sinopec Gas Group and SBI Group by BHI Tianjin Group after receiving the natural gas.

Manner of payment under the Sinopec Gas Transmission Agreement

The volume of natural gas that BHI Tianjin Group has transmitted for Sinopec Gas Group and SBI Group for each month will be recorded by the parties using the gas measurement instruments approved by them. The parties will together record the gas transmission volume as shown on the gas measurement instruments on the volume handover sheet on the 25th day of each month and agree on the volume handover sheet. Based on the volume handover sheet, BHI Tianjin Group will issue an invoice to Sinopec Gas Group and SBI Group on a monthly basis. The terms of settlement for the transactions pursuant to the Sinopec Gas Transmission Agreement based on the above arrangement are no less favourable to the Group than the terms of settlement for the transmission of gas by the Group to independent third parties.

We have selected and reviewed the gas transmission contract with SBI of the Sinopec Group, which cover all the counterparty under the existing annual cap for the year ending 31 December 2021 under the 2020 Sinopec Gas Transmission Agreement as indicated below. We noted that the above monthly payment arrangement offered by the Group to SBI was comparable to those offered to the independent third party of similar length of pipelines in the same industry.

Based on the above, we consider that the manner of payment on a monthly basis under the Sinopec Gas Transmission Agreement will be on terms no less favourable to the Group than those available to the Group for the natural gas transmission.

LETTER FROM OCTAL

Consideration under the Sinopec Gas Transmission Agreement

As stated in the Letter from the Board, the consideration will be determined based on arm's length negotiations according to the following factors:

- (i) the volume of natural gas to be transmitted by BHI Tianjin Group to Sinopec Gas Group and SBI Group; and
- (ii) the gas transmission fee with reference to the gas transmission fee in respect of similar length of pipelines in the same industry and/or the pricing provisions in the regulatory notice on the gas transmission fee as stipulated by the TDRC from time to time.

The latest regulatory notice in respect of the transactions contemplated under the Sinopec Gas Transmission Agreement is as follows:

Name of notice

Relevant pricing provision

“Notice on Adjusting the Natural Gas Pipeline Transmission Price of the City from the Development and Reform Commission of Tianjin City” (Jin Development and Reform Price Zong 2019 No. 241)* (《天津市發展改革委關於調整我市天然氣管道運輸價格的通知》(津發改價管[2019]241號)) issued by TDRC on 4 April 2019

With effect from 1 April 2019, the gas transmission fee for the pipelines operated by Tianjin Clean Energy is adjusted to RMB0.00243 per cubic meter per kilometer

If there is an adjustment to the regulatory notices of the TDRC on the pricing provisions, the gas transmission fee will be adjusted correspondingly. The regulatory notices are updated from time to time by the TDRC without any fixed schedule. The extent, direction or frequency of updating the pricing provisions is at the discretion of the TDRC.

The individual agreements for the transmission of natural gas to be entered into by BHI Tianjin Group with Sinopec Gas Group and SBI Group will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the transmission of natural gas to independent third parties.

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As stated in the Letter from the Board, the individual agreements for the sale and purchase of natural gas, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas Group or SBI Group on the other hand, will be on normal commercial terms that are fair and reasonable, and will be on terms no less favourable to the Group than those available to the Group for the transmission of natural gas to independent third parties. As mentioned in the section below headed “Regarding the internal control measures governing the transactions under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement”, the Group, for each connected transaction under the Sinopec Gas Transmission Agreement, will assess the relevant terms and conditions and the pricing mechanism, as well as comparison with terms and conditions offered and prices charged to at least two independent third parties for natural gas transmission in order to ensure that such transaction will be on normal commercial terms that are fair and reasonable. As part of our due diligence, we have selected and reviewed the gas transmission contract with SBI of the Sinopec Group, which cover all the counterparty under the existing annual cap for the year ending 31 December 2021 under the 2020 Sinopec Gas Transmission Agreement as indicated below. We noted that the pricing term offered by the Group to SBI were comparable to those offered to the independent third party in respect of similar length of pipelines in the same industry.

Therefore, we concurred with the Company that the pricing of the individual agreements for the natural gas transmission, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas Group or SBI on the other hand will be on terms no less favourable to the Group than those available to the Group for the natural gas transmission service offered by the Group to independent third parties under the Group’s internal control mechanism.

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4. *Analysis on the Sinopec Gas Transmission Annual Caps*

The following table summarises (i) the historical transaction amounts of natural gas transmitted by Tianjin Clean Energy to SBI under the 2020 Sinopec Gas Transmission Agreement; and (ii) the Sinopec Gas Transmission Annual Caps for the three years ending 31 December 2024:

	For the period from 9 November 2020 to 31 December 2020		For the period from 1 January 2021 to 31 October 2021		
	Approximate historical transaction amount <i>(Note 1)</i> <i>(RMB)</i>	Existing annual cap amount <i>(Note 1)</i> <i>(RMB)</i>	Approximate historical transaction amount <i>(RMB)</i>	historical transaction amount (annualised) <i>(Note 2)</i> <i>(RMB)</i>	Existing annual cap amount <i>(RMB)</i>
Actual transaction amount of natural gas transmitted by Tianjin Clean Energy to SBI under the 2020 Sinopec Gas Transmission Agreement	10,890	15,600	532,000	638,400	2,190,000
Utilisation rate <i>(Note 3)</i>		69.8%		30.4%	

For the year ending 31 December		
2022	2023	2024
Sinopec Gas Transmission Annual Cap amounts		
<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>

Estimated transaction amount of natural gas to be transmitted by the BHI Tianjin Group to the Sinopec Group and SBI under the Sinopec Gas Transmission Agreement <i>(Note 4)</i>	2,010,000	2,010,000	2,015,000
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Notes:

1. The amount of historical transaction and the existing annual cap for the year ending 31 December 2020 covers the transaction amounts under the 2020 Sinopec Gas Transmission Agreement for the period between 9 November 2020 (as the 2020 Sinopec Gas Transmission Agreement took effect in November 2020) and 31 December 2020.
2. The annualised historical transaction amount under the 2020 Sinopec Gas Transmission Agreement of approximately RMB638,400 for the ten months ended 31 October 2021 is presented for illustration purpose only.
3. The utilisation rate is calculated as the actual transaction amount/annualised actual transaction amount under the 2020 Sinopec Gas Transmission Agreement divided by the existing annual caps under the 2020 Sinopec Gas Transmission Agreement for the respective year/period.
4. While SBI is not a subsidiary of Sinopec Gas, the Sinopec Gas Transmission Annual Caps do not include any transaction amount between BHI Tianjin Group and the associates of SBI which are not its subsidiaries.

With reference to the Letter from the Board, the above Sinopec Gas Transmission Annual Caps were determined with reference to:

1. the historical transaction amounts of natural gas transmitted by Tianjin Clean Energy to SBI under the 2020 Sinopec Gas Transmission Agreement;
2. estimates based on the demands for natural gas by the customers of Sinopec Gas Group and SBI Group; and
3. the gas transmission fee with reference to the gas transmission fee in the same industry and the pricing provisions in the regulatory notice on the gas transmission fee as stipulated by the TDRC from time to time.

To assess the fairness and reasonableness of the Sinopec Gas Transmission Annual Caps, we have discussed with the management of the Company and were given to understand that the Sinopec Gas Transmission Annual Caps for the three years ending 31 December 2024 are mainly estimated based on the annual natural gas transmission plans prepared by the BHI Tianjin Group with reference to (i) the latest regulatory notice on adjustments to the gas transmission fees issued by the TDRC, and (ii) the business plan of the Sinopec Gas Group and SBI which resulted in the demands for natural gas transmission by Sinopec Gas Group and SBI.

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As mentioned in the sub-section headed “Analysis on the Sinopec Gas Supply Annual Caps”, in accordance with the annual report of the Sinopec Corp for the year ended 31 December 2020, the Sinopec Corp expected that China’s economy has recovered steadily and is expected to achieve positive growth, which may result in the increased demand for natural gas consumption. The Company shall provide support for one of its key strategic Shareholders through leveraging on its comprehensive pipeline network to facilitate the natural gas transmission for Sinopec Group and SBI, which eventually enable Sinopec Group and SBI to make good use of favourable business coverage of the BHI Tianjin Group in Tianjin. In turn, the Group can also benefit from better utilising its existing pipeline network and earning transmission fee under the Sinopec Gas Transmission Agreement.

Based on the above information provided by the Company, we note that the Sinopec Gas Transmission Annual Cap for the year ending 31 December 2022 will increase substantially from the historical transaction amounts for the year ended 31 December 2021, and the Sinopec Gas Transmission Annual Cap for the year ending 31 December 2023 and 2024 will remain stable. As mentioned before, it is expected that the sales volume of the Sinopec Gas Group in the next year will be on the rise as a result of economic recovery of China and the expansion plan of Sinopec Gas Group and SBI. Under the Sinopec Gas Transmission Annual Caps, the Group is able to expand its gas transmission services from SBI to Sinopec Gas Group and SBI Group in respond to their business development needs. The substantial increment of the Sinopec Gas Transmission Annual Cap for the year ending 31 December 2022 is consistent with the growth of the consumption and/or sales of piped natural gas by the Sinopec Gas Group of Sinopec Corp and SBI. In addition, we understand from the Company that it is the intention of both the BHI Tianjin Group and Sinopec Gas Group and SBI to remain stable the natural Gas Transmission from BHI Tianjin Group to the Sinopec Gas Group and SBI over the coming years, and therefore the Sinopec Gas Transmission Annual Caps for the years ending 31 December 2023 and 2024 will stay at almost the same as the Sinopec Gas Transmission Annual Cap for the year ending 31 December 2022. As advised by the management of the Group, both parties intend to construct a long term business partnership in respect of natural gas transmission service after the entering into of the Sinopec Gas Transmission Agreement. We concur with the Company that (i) the increment of transmission volume for the year ended 31 December 2022 is reasonable; and (ii) the BHI Tianjin Group shall take up more responsibility of supporting the substantial shareholder of the Company through utilising its comprehensive pipeline network to provide stable gas transmission services under the Sinopec Gas Transmission Agreement.

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As mentioned in the section of this letter headed “Consideration under the Sinopec Gas Transmission Agreement”, the pricing of the individual agreements for the natural gas transmission, to be entered into between BHI Tianjin or its subsidiaries on the one hand, and Sinopec Gas Group or SBI on the other hand will be on terms no less favourable to the Group than those available to the Group for the natural gas transmission service offered by the Group to independent third parties under the Group’s internal control mechanism. In addition, Sinopec Gas Group and SBI intends to build a long term business partnership with the Company in regard to the natural gas transmission service. Having considered (i) the pricing for the individual agreements for the natural gas transmission to be entered into between the BHI Tianjin Group and the Sinopec Gas Group or SBI is on terms no less favourable to the Group than those available to the Group from independent third parties; and (ii) the potential benefits to the Company after establishment of the long term corporation with Sinopec Gas Group and SBI Group by entering into the Sinopec Gas Transmission Agreement, we consider that the Group’s intention to stabilise transmission volume with the Sinopec Group and SBI over the coming years of 2023 and 2024 will not only provide continuous support for the Group’s revenue from overall natural gas business, but will also create supply chain synergy between the Sinopec Gas Group, SBI and the BHI Tianjin Group by utilising the extensive natural gas pipeline networks of the BHI Tianjin Group to support the business plan of the parent company (i.e. Sinopec Corp) in the PRC.

Taking into account the above, we consider that the Sinopec Gas Transmission Annual Caps in respect of the Sinopec Gas Transmission Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(C) REGARDING THE INTERNAL CONTROL MEASURES GOVERNING THE TRANSACTIONS UNDER THE TEDA GAS SUPPLY AGREEMENT, THE TEDA GAS SUPPLY CONNECTION AGREEMENT, THE 2020 SINOPEC LONG-TERM GAS SUPPLY AGREEMENT, THE SINOPEC GAS SUPPLY AGREEMENT AND THE SINOPEC GAS TRANSMISSION AGREEMENT

To ensure that the transactions contemplated under the TEDA Gas Supply Agreement, TEDA Gas Supply Connection Agreement, 2020 Sinopec Long-Term Gas Supply Agreement, Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement will be on normal commercial terms that are fair and reasonable and will be on terms no less favourable to the Group than those available to the Group for the purchase of natural gas from independent third parties, the Company has adopted the following internal control measures:

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- (i) The Board office of the Company is responsible for regulating the review and approval of connected transactions to be entered into by the Group in the ordinary and usual course of the business of the Group.

Pursuant to the “Administrative Measures for Connected Transactions”* (《關連交易管理辦法》) of the Company (as amended from time to time), each department and subsidiary of the Group shall submit an information sheet for each connected transaction to functional department, the finance department, the Board office of the Company and the secretary to the Board for review and approval. Such information sheet shall set out the terms and conditions and the pricing mechanism of the connected transaction, as well as comparison with terms and conditions and prices offered to at least two independent third parties with:

- (a) in respect of the TEDA Gas Supply Agreement and Sinopec Gas Supply Agreement, similar gas consumption, region and nature of gas consumption;
- (b) in respect of the TEDA Gas Supply Connection Agreement, similar gas consumption, region and difficulty of specific construction work; or
- (c) in respect of the Sinopec Gas Transmission Agreement, similar gas consumption, region.

The procedures for the approval and signing of the agreement for the connected transaction shall only commence after approval of the information sheet has been granted.

- (ii) In the event there is no quotation or reference transaction from independent third parties available for comparison, the Group will consider the prevalent pricing policy of the industry (e.g. natural gas being sold at a certain percentage above the benchmark citygate prices of natural gas) and compare the price for the supply of natural gas, the provision of Gas Supply Connection Services or the transmission of natural gas with the relevant market price in the nearby region in respect of the relevant member of the Group or the BHI Tianjin Group.

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- (iii) The Board office of the Company monitors the actual transaction amounts of the connected transactions entered into by the Group in the ordinary and usual course of the business of the Group on a monthly basis to ensure compliance with the Listing Rules, and is responsible for reporting to the audit committee of the Company (which comprises all independent non-executive Directors) on an annual basis. The independent non-executive Directors will review the continuing connected transactions every year and confirm in the annual report of the Company 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 according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (iv) The Company will engage its auditors to report on the continuing connected transactions every year. The auditors will provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions (1) have not been approved by the Board, (2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group, (3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions, and (4) have exceeded the caps.

In addition, for the purpose of Rule 14A.56 of the Listing Rules, the external auditor of the Company will be engaged to issue a letter to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on "Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

In assessing the effectiveness of the existing internal control measures in governing connected transactions conducted by the Group such as the transactions under the TEDA Gas Supply Agreement, TEDA Gas Supply Connection Agreement, 2020 Sinopec Long-Term Gas Supply Agreement, Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement, we have: (i) obtained and reviewed the circular of "Administrative Measures for Connected Transactions"* (《關連交易管理辦法》) of the Company in effective since 28 April 2019 (as amended from time to time), which governs the selection process of connected parties as suppliers and/or customers of the Group. In particular, we noted that prior to conducting a connected transaction of the Group, the terms and conditions of the contract to be entered into with connected party will be compared with the contracts previously entered into with

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independent third parties under similar nature or against public pricing guidance promulgated by relevant government authorities. Subsequently the comparison results will be considered by and approvals will be sought from the management of the contracting subsidiary of the Group, followed by various responsible departments of the Company, to ensure such terms and conditions under the contract with independent third parties shall be no less favourable than those to be entered into with connected party and necessary reporting obligations under the Listing Rules are fulfilled; and (ii) sample checked the historical assessment documents for three connected transactions conducted by the Group during each of 2019, 2020 and 2021 and we noted that the Group has implemented the aforementioned procedures in accordance to the circular of “Administrative Measures for Connected Transactions”* (《關連交易管理辦法》) of the Company in effective since 28 April 2019 (as amended from time to time) prior to the entering into of the TEDA Transactions and the Sinopec Transactions.

Based on the above, the Directors are of the view that the internal control measures above can ensure that the transactions contemplated under TEDA Gas Supply Agreement, TEDA Gas Supply Connection Agreement, 2020 Sinopec Long-Term Gas Supply Agreement, Sinopec Gas Supply Agreement and Sinopec Gas Transmission Agreement will be 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. Having reviewed the above mechanism and the Group’s historical internal control procedural records, and considered that transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement will be subject to the on-going review by the independent non-executive Directors and the auditors of the Company, we concur with the view of the Directors that the Group have appropriate and adequate internal control measures in place to govern the transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement and thereby safeguarding the interests of the Independent Shareholders.

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RECOMMENDATION

Having considered the above, we are of the opinion that (i) the transactions contemplated under the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the New Annual Caps, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement are in the ordinary and usual course of business of the Group; (ii) the TEDA Transactions and the Sinopec Transactions are on normal commercial terms; and (iii) the terms of the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the TEDA Proposed Annual Caps, the New Annual Caps and the Sinopec Proposed Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM for approving the TEDA Gas Supply Agreement, the TEDA Gas Supply Connection Agreement, the 2020 Sinopec Long-Term Gas Supply Agreement, the Sinopec Gas Supply Agreement and the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the TEDA Proposed Annual Caps, the New Annual Caps and the Sinopec Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Louis Chan
Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

** For identification purposes only*

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 the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND THE CHIEF EXECUTIVES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules are as follows:

(i) Long position in Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage of total issued share capital of the Company
Professor Japhet Sebastian Law	Beneficial owner	100,000	0.01%

(ii) Directors' interest in share options granted by the Company

Name of Director	Number of share options held	Approximate percentage of total issued share capital of the Company
Mr. Gao Liang	1,174,143	0.09%

Note: Pursuant to the share option scheme of the Company adopted on 13 January 2021, all the share options stated above are exercisable at HK\$1.32 per Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which has an interest or short position in the Shares or 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:

Name of Director	Name of company	Position
Mr. Wang Zhiyong	TEDA	Chairman
Mr. Zuo Zhi Min	Sinopec Great Wall Energy Investment Co., Ltd.* (中石化長城燃氣投資有限公司)	Executive director and general manager
Mr. Wang Gang	TEDA	Assistant general manager
Mr. Shen Hong Liang	Sinopec Gas	Manager of the terminal market development centre

3. COMPETING INTERESTS

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or any of their respective close associates had an interest in a business that competes or is likely to compete, either directly or indirectly with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which did not expire or was not determinable by the relevant member of the Group within one year without payment of any compensation (other than statutory compensation).

5. 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 accounts of the Group were made up.

6. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTEREST

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

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

7. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Octal Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Octal has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

The letter given by Octal is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Octal did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Octal did not have any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against either the Company or any other member of the Group, which shall be brought to the Shareholders' attention.

9. GENERAL

In case of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.binhaiinv.com) for the period of 14 days from the date of this circular:

- (a) The TEDA Gas Supply Agreement;
- (b) The TEDA Gas Supply Connection Agreement;
- (c) The 2020 Sinopec Long-term Gas Supply Agreement;
- (d) The Sinopec Gas Supply Agreement;
- (e) The Sinopec Gas Transmission Agreement;
- (f) The letter from the Independent Board Committee, the text of which is set out on pages 40 to 41 of this circular;
- (g) The letter from Octal, the text of which is set out on pages 42 to 107 of this circular; and
- (h) The consent letter of Octal referred to in the section headed "*Expert*" of this appendix.

NOTICE OF SGM



濱海投資有限公司

BINHAI INVESTMENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 2886)

NOTICE IS HEREBY GIVEN that a special general meeting of Binhai Investment Company Limited (the “**Company**”) will be held on Thursday, 23 December 2021 at 10:00 a.m. at Canvas 5, 26/F, The Park Lane Hong Kong Hotel, 310 Gloucester Road, Causeway Bay, Hong Kong to consider, and, if thought fit, pass the following resolutions (with or without modifications) as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the TEDA Gas Supply Agreement as defined and described in the circular of the Company dated 6 December 2021 of which this resolution forms part (the “**Circular**”) (a copy of each of the TEDA Gas Supply Agreement and the Circular having been produced at the meeting and marked “**A**” and “**B**” respectively and each initialed by the chairman of the meeting for the purpose of identification), and transactions contemplated thereunder and in connection therewith and any other documents ancillary to it, be and are hereby approved, ratified and/or confirmed;
- (b) the TEDA Gas Supply Annual Caps (as defined and described in the Circular) be and are hereby approved;
- (c) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, agreements, instruments and deeds, and do all such acts, matters or things and take all such steps as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the TEDA Gas Supply Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Annual Caps).”

2. “**THAT:**

- (a) the TEDA Gas Supply Connection Agreement as defined and described in the Circular (a copy of the TEDA Gas Supply Connection Agreement having been produced at the meeting and marked “**C**” and initialed by the chairman of the meeting for the purpose of identification), and transactions contemplated thereunder and in connection therewith and any other documents ancillary to it, be and are hereby approved, ratified and/or confirmed;

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- (b) the TEDA Gas Supply Connection Annual Caps (as defined and described in the Circular) be and are hereby approved;
 - (c) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, agreements, instruments and deeds, and do all such acts, matters or things and take all such steps as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the TEDA Gas Supply Connection Agreement and transactions contemplated thereunder (including the TEDA Gas Supply Connection Annual Caps).”
3. **“THAT:**
- (a) the New Annual Caps as defined and described in the Circular be and are hereby approved;
 - (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, agreements, instruments and deeds, and do all such acts, matters or things and take all such steps as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the New Annual Caps and transactions contemplated under the New Annual Caps.”
4. **“THAT:**
- (a) the Sinopec Gas Supply Agreement as defined and described in the Circular (a copy of the Sinopec Gas Supply Agreement having been produced at the meeting and marked “**D**” and initialed by the chairman of the meeting for the purpose of identification), and transactions contemplated thereunder and in connection therewith and any other documents ancillary to it, be and are hereby approved, ratified and/or confirmed;
 - (b) the Sinopec Gas Supply Annual Caps (as defined and described in the Circular) be and are hereby approved;
 - (c) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, agreements, instruments and deeds, and do all such acts, matters or things and take all such steps as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the Sinopec Gas Supply Agreement and transactions contemplated thereunder (including the Sinopec Gas Supply Annual Caps).”

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5. “**THAT:**

- (a) the Sinopec Gas Transmission Agreement as defined and described in the Circular (a copy of the Sinopec Gas Transmission Agreement having been produced at the meeting and marked “E” and initialed by the chairman of the meeting for the purpose of identification), and transactions contemplated thereunder and in connection therewith and any other documents ancillary to it, be and are hereby approved, ratified and/or confirmed;
- (b) the Sinopec Gas Transmission Annual Caps (as defined and described in the Circular) be and are hereby approved;
- (c) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such documents, agreements, instruments and deeds, and do all such acts, matters or things and take all such steps as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the Sinopec Gas Transmission Agreement and transactions contemplated thereunder (including the Sinopec Gas Transmission Annual Caps).”

By Order of the Board
BINHAI INVESTMENT COMPANY LIMITED
Gao Liang
Executive Director

Hong Kong, 6 December 2021

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more ordinary shares of the Company) to attend and vote in his stead. A proxy needs not be a member of the Company.
- (2) Where there are joint holders of any ordinary share any one of such joint holder may vote, either in person or by proxy, in respect of such ordinary share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

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- (4) For determining the entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Monday, 20 December 2021 to Thursday, 23 December 2021, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to be eligible to attend and vote at the meeting, all completed transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 December 2021.
- (5) As at the date hereof, the Board comprises three executive Directors, namely, Mr. Wang Zhiyong, Mr. Zuo Zhi Min and Mr. Gao Liang, three non-executive Directors, namely, Mr. Wang Gang, Mr. Shen Hong Liang and Mr. Yu Ke Xiang, and three independent non-executive Directors, namely, Mr. Ip Shing Hing, *J.P.*, Mr. Lau Siu Ki, Kevin and Professor Japhet Sebastian Law.