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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Tianjin Jinran Public Utilities Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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### 天津津燃公用事業股份有限公司 Tianjin Jinran Public Utilities Company Limited

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

**(Stock Code: 01265)**

## RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY

### Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



Gram Capital Limited  
嘉林資本有限公司

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A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee is set out on page 20 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 34 of this circular.

The notice of the EGM and the proxy form have been published and despatched to the Shareholders on 9 December 2021.

Whether or not you are able to attend the EGM, you are reminded to complete the proxy form, in accordance with the instructions printed thereon and send the proxy form to the office of the Company at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC (for holders of Domestic Shares), or to the office of the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as practicable and in any event not later than 24 hours before the time appointed for holding of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting(s) should you so wish.

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## DEFINITIONS

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*The following words and phrases used in this circular have the same meanings set out below unless the context requires otherwise:*

“2021 Gas Supply Contract”	the gas supply contract dated 9 February 2021 and entered into between the Company and Jinran China Resources in respect of the supply of natural gas by Jinran China Resources to the Company for the year ending 31 December 2021
“2022 Gas Supply Contract”	the conditional gas supply contract dated 6 December 2021 and entered into between the Company and Jinran China Resources in respect of the supply of natural gas by Jinran China Resources to the Company for the year ending 31 December 2022
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	天津津燃公用事業股份有限公司 (Tianjin Jinran Public Utilities Company Limited), a joint stock limited company incorporated in the PRC, whose H Shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Amount”	the actual total Gas Volume sourced by the Company from Jinran China Resources in the year ending 31 December 2021
“Contractual Gas Sourcing Price”	the unit Gas Sourcing Price of the Company for Gas Supply occurred under the Contractual Amount, as described under the paragraph headed “First component: Contractual Gas Sourcing Price” in the Letter from the Board in this circular
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary domestic share(s) of nominal value of RMB0.10 each in the registered capital of the Company which are subscribed for in RMB

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened and held on 31 December 2021 (Friday) at 3:00 p.m. at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC for the purpose of considering, and if thought fit, approving the 2022 Gas Supply Contract
“Gas Purchase Price”	the price per cubic metre at which Jinran China Resources purchases natural gas from its supplier
“Gas Sourcing Price”	the monthly price per cubic metre at which the Company sources its natural gas from Jinran China Resources
“Gas Supply”	the supply of natural gas by Jinran China Resources to the Company
“Gas Volume”	volume of natural gas purchased by the Company from Jinran China Resources
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2022 Gas Supply Contract
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares in the ordinary share capital of the Company with a par value of RMB0.10 each, which are listed on main board of the Stock Exchange
“Independent Board Committee”	the independent board committee of the Company comprising of Mr. Zhang Ying Hua, Mr. Yu Jian Jun and Mr. Guo Jia Li, each an independent non-executive Director, established to advise the Independent Shareholders on the 2022 Gas Supply Contract
“Independent Shareholders”	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolution approving the 2022 Gas Supply Contract

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## DEFINITIONS

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“Jinran China Resources”	津燃華潤燃氣有限公司 (Jinran China Resources Gas Co., Ltd*), a company established in the PRC with limited liability; and a connected person of the Company
“Latest Practicable Date”	9 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Contractual Amount”	Total Amount minus Contractual Amount
“Non-Contractual Gas Sourcing Price”	the unit Gas Sourcing Price of the Company for Gas Supply occurred beyond the Contractual Amount, as described under the paragraph headed “Second component: Non-Contractual Gas Sourcing Price” in the Letter from the Board in this circular
“Non-Residential Gas”	natural gas (not being Residential Gas) purchased by Jinran China Resources from its suppliers or sourced by the Company from Jinran China Resources, as the case may be
“Non-Residential Gas Allocation Price”	the price per cubic metre for Non-Residential Gas Amount under the Contractual Amount at which Jinran China Resources can charge under the directions of TDRC (if any) from time to time, in excess of the Non-Residential Gas Purchase Price in a Settlement Period
“Non-Residential Gas Amount”	the amount (as verified by the Company) of Non-Residential Gas that Jinran China Resources purchased from its supplier(s) and supplied to the Company in a Settlement Period
“Non-Residential Gas Purchase Price”	the Gas Purchase Price (per cubic metre) at which Jinran China Resources purchased Non-Residential Gas from its supplier(s) and supplied to the Company in a Settlement Period
“Non-Residential Users”	general commercial and industrial users, users for supply of central heating and users other than Residential Users
“normal commercial terms or better”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“PRC”	The People’s Republic of China, and for the purpose of this circular, does not include the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prepayment”	the prepayment payable by the Company to Jinran China Resources pursuant to the 2022 Gas Supply Contract
“Pricing Mechanism”	the pricing mechanism to calculate the Gas Sourcing Price specified in the 2022 Gas Supply Contract, details of which are set out in the paragraph headed “Gas Supply in 2022 and pricing policy” in the Letter from the Board in this circular
“Residential Gas”	natural gas designated as for Residential Users purchased by Jinran China Resources from its suppliers or sourced by the Company from Jinran China Resources, as the case may be
“Residential Gas Allocation Price”	the price per cubic metre for Residential Gas under the Contractual Amount at which Jinran China Resources can charge under the directions of TDRC (if any) from time to time, in excess of the Residential Gas Purchase Price in a Settlement Period
“Residential Gas Amount”	the amount (as verified by the Company) of Residential Gas that Jinran China Resources purchased from its supplier(s) and supplied to the Company in a Settlement Period
“Residential Gas Purchase Price”	the Gas Purchase Price (per cubic metre) at which Jinran China Resources purchased Residential Gas from its supplier(s) and supplied to the Company in a Settlement Period
“Residential Users”	residential users, educational institutions, student residences, elderly welfare institutions, urban and rural community neighbourhood public service facilities, and religion service providers
“RMB”	Renminbi, the lawful currency of the PRC

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## DEFINITIONS

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“Settlement Period”	one of the following periods in sequence, January to March, April to July, August to October, and November to December
“SFO”	Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended from time to time)
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TDRC”	天津市發展和改革委員會 (Tianjin Development and Reform Commission*)
“Tianjin Gas”	天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited*), a state-owned enterprise established in the PRC with limited liability; and a connected person of the Company
“Total Amount”	the total volume of natural gas sourced by the Company from Jinran China Resources

*In this circular, the English names of the PRC entities are translation of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

*\* For identification purpose only*

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## LETTER FROM THE BOARD

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天津津燃公用事業股份有限公司

**Tianjin Jinran Public Utilities Company Limited**

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

**(Stock Code: 01265)**

*Executive Directors:*

Mr. Zhao Wei (*Chairman*)

Ms. Tang Jie

Mr. Sun Liangchuan

*Legal Address:*

Weishan Road

Chang Qing Science

Industry and Trade Park

Jinnan District, Tianjin, PRC

*Non-executive Directors:*

Mr. Hou Shuang Jiang

Mr. Zhao Heng Hai

Ms. Hou Yuling

*Principal Place of Business  
in the PRC:*

Floor 9, Gangao Tower

No. 18 Zhengzhou Road

Heping District

Tianjin, PRC

*Independent Non-executive Directors:*

Mr. Zhang Ying Hua

Mr. Yu Jian Jun

Mr. Guo Jia Li

15 December 2021

*To Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY**

#### **INTRODUCTION**

Reference is made to the announcement of the Company dated 9 February 2021 and the circular of the Company dated 15 March 2021 concerning the continuing connected transaction of the Company in relation to the 2021 Gas Supply Contract entered into between Jinran China Resources and the Company, and the announcement of the Company dated 6 December 2021 concerning the 2022 Gas Supply Contract.

As the 2021 Gas Supply Contract will expire on 31 December 2021, on 6 December 2021, the Company and Jinran China Resources entered into the 2022 Gas Supply Contract for the period from 1 January 2022 to 31 December 2022.



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further details of the 2022 Gas Supply Contract; (ii) letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the 2022 Gas Supply Contract; (iii) a letter from Gram Capital to the Independent Board Committee and the Independent Shareholders containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Gas Supply Contract; and (iv) other information as required by the Listing Rules.

### **2022 GAS SUPPLY CONTRACT**

#### **Date of entering into the 2022 Gas Supply Contract**

6 December 2021

#### **Contracting parties**

Supplier : Jinran China Resources

Purchaser : the Company

As at the Latest Practicable Date, Jinran China Resources was owned as to 51% by Tianjin Gas. Tianjin Gas was a controlling shareholder of the Company, holding approximately 70.54% of the issued shares of the Company as at the Latest Practicable Date.

#### **Major terms**

##### *Condition precedent*

The 2022 Gas Supply Contract shall be effective upon the Company having obtained the Independent Shareholders' approval pursuant to the Listing Rules.

##### *Gas Supply in 2022 and pricing policy*

Pursuant to the 2022 Gas Supply Contract, Jinran China Resources has agreed to supply to the Company, and the Company has agreed to source from Jinran China Resources, natural gas at the Gas Sourcing Price.

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## LETTER FROM THE BOARD

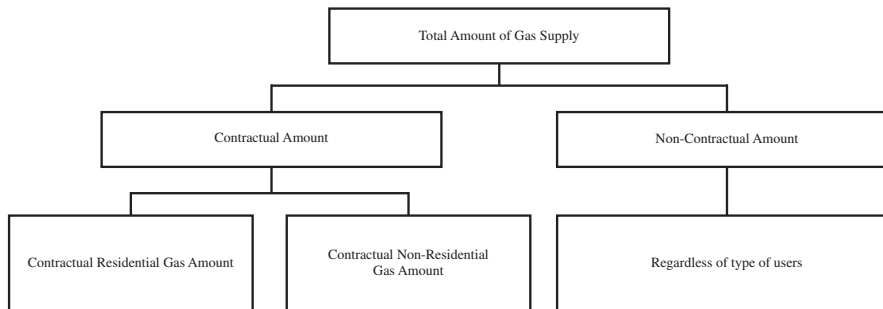
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The Gas Sourcing Price in each Settlement Period shall be determined as follows:

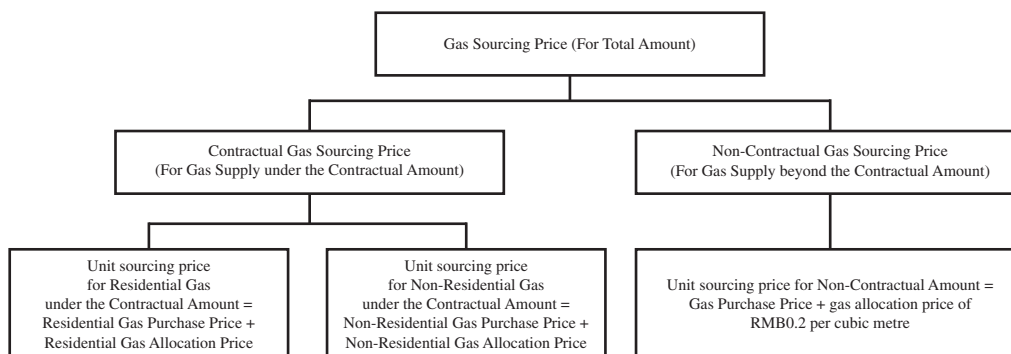
The Gas Sourcing Price applicable to Gas Supply is a volume-weighted average of the sum of two transaction amounts weighed by the Total Amount of Gas Supply. The said two transaction amounts are (a) Contractual Gas Sourcing Price times Contractual Amount of Gas Supply, and (b) Non-Contractual Gas Sourcing Price times Non-Contractual Amount of Gas Supply. The formula for the calculation of Gas Sourcing Price is as follows:

$$\text{Gas Sourcing Price} = \frac{\text{Contractual Gas Sourcing Price} \times \text{Contractual Amount} + \text{Non-Contractual Gas Sourcing Price} \times \text{Non-Contractual Amount}}{\text{Total Amount}}$$

Please refer to the following dendrogram for an illustration of the Gas Supply amount components in the calculation of the Gas Sourcing Price:



Please refer to the following dendrogram for an illustration of the price components in the calculation of the Gas Sourcing Price:



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## LETTER FROM THE BOARD

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Contractual Gas Sourcing Price, being the Gas Sourcing Price of the Company for Gas Supply occurred under Contractual Amount, is a volume-weighted average price of the sum of two transaction amounts weighted by the Contractual Amount. The said two transaction amounts are (a) the unit sourcing price for Gas Supply of Residential Gas times Contractual Residential Gas Amount, and (b) the unit sourcing price for Gas Supply of Non-Residential Gas times Contractual Non-Residential Gas Amount. The abovementioned sourcing price under (a) is a simple sum of the Gas Purchase Price incurred by Jinran China Resources for Residential Gas (i.e. Residential Gas Purchase Price), and a gas allocation price to be incurred by the Company for the Residential Gas (i.e. Residential Gas Allocation Price). The abovementioned sourcing price under (b) is a simple sum of the Gas Purchase Price incurred by Jinran China Resources for Non-Residential Gas (i.e. Non-Residential Gas Purchase Price), and a gas allocation price to be incurred by the Company for Non-Residential Gas (i.e. Non-Residential Gas Allocation Price).

Non-Contractual Gas Sourcing Price, being the Gas Sourcing Price of the Company for Gas Supply occurred beyond Contractual Amount (i.e. the Non-Contractual Amount), is a simple sum of Gas Purchase Price incurred by Jinran China Resources for Non-Contractual Amount, and a gas allocation price of RMB0.2 per cubic metre to be incurred by the Company for Non-Contractual Amount.

The mathematical illustration of how the Gas Sourcing Price of a Settlement Period is calculated from the abovementioned elements is as follows:

***First component: Contractual Gas Sourcing Price***

*In a Settlement Period:*

$$\text{Contractual Gas Sourcing Price} = \frac{(\text{Residential Gas Purchase Price} + \text{Residential Gas Allocation Price}) \times \text{Contractual Residential Gas Amount} + (\text{Non-Residential Gas Purchase Price} + \text{Non-Residential Gas Allocation Price}) \times \text{Contractual Non-Residential Gas Amount}}{\text{Contractual Amount}}$$

1. “Contractual Residential Gas Amount” equals to:

$$\text{Residential Gas Amount in a Settlement Period/Total Amount} \times \text{Contractual Amount of such Settlement Period}$$

2. “Contractual Non-Residential Gas Amount” equals to:

$$\text{Non-Residential Gas Amount in a Settlement Period/Total Amount} \times \text{Contractual Amount of such Settlement Period}$$

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## LETTER FROM THE BOARD

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### ***Second component: Non-Contractual Gas Sourcing Price***

*In a Settlement Period:*

$$\begin{array}{l} \text{Non-Contractual} \\ \text{Gas Sourcing Price} \end{array} = \text{Non-Contractual Gas Purchase Price} + \text{RMB0.2 per cubic metre}$$

The Company may require Jinran China Resources to provide proof as to the purchase price of natural gas paid by Jinran China Resources to its upstream suppliers for natural gas.

### ***Combining the first and second components: Gas Sourcing Price applicable to Gas Supply in each month of a Settlement Period***

*In a Settlement Period:*

$$\text{Gas Sourcing Price} = \frac{\begin{array}{c} \text{Contractual Gas Sourcing Price} \\ \times \\ \text{Contractual Amount} \end{array} + \begin{array}{c} \text{Non-Contractual Gas Sourcing Price} \\ \times \\ \text{Non-Contractual Amount} \end{array}}{\text{Total Amount}}$$

Notwithstanding the aforesaid Pricing Mechanism, in the event there is any change in the national policy which affect the Gas Sourcing Price or its pricing mechanism, the national pricing policy shall be followed.

In the event that the Company would like to discount the unit price of natural gas consumed or to be consumed by certain strategic customers who are not connected persons of the Company, Jinran China Resources and the Company may execute a supplemental agreement under which the discounted sum will be borne by both parties at a proportion to be stipulated.

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## LETTER FROM THE BOARD

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### *Rationale of incorporating different components in the Gas Sourcing Price*

The reason for having a different Gas Sourcing Price for Gas Supply under the Contractual Amount and Non-Contractual Amount and different Gas Sourcing Price for Residential Users and Non-Residential Users is to reflect the commercial fact that Jinran China Resources sources the natural gas concerned in the Gas Supply from government appointed and regulated ultimate suppliers of natural gas in the Tianjin region like PetroChina Company Limited at Gas Purchase Price that (i) varies with different levels of consumption by Jinran China Resources and (ii) differs for Residential Gas and Non-Residential Gas when the amount of consumption by Jinran China Resources is below a certain level, above which the Gas Purchase Price will no longer be referencing the amounts of Residential Gas and Non-Residential Gas. So in order to accommodate the change in gas purchasing cost incurred by Jinran China Resources resulted from such variation and difference contributed by the Company, while at the same time to secure the interest of the Company by limiting the potential increase in Gas Sourcing Price as a result of the potential increase in Gas Purchase Price, it is therefore agreed commercially between the Company and Jinran China Resources that, corresponding to pricing mechanism of the Gas Purchase Price, the Pricing Mechanism of Gas Sourcing Price should be adjusted in a weighted average manner with regards to (i) Contractual Gas Sourcing Price for Gas Supply under the Contractual Amount for Residential Gas and Non-Residential Gas, and (ii) Non-Contractual Gas Sourcing Price for Gas Supply beyond the Contractual Amount without distinguishing between Residential Gas and Non-Residential Gas.

As the Company expects that the Non-Contractual Gas Sourcing Price will be higher than the Contractual Gas Sourcing Price, the Company believes that it will be in its interest to have a higher “quota” for the Contractual Amount. The actual Gas Volume sourced by the Company from the beginning of 2021 is relatively on the high side when compared to figures in recent year, recovering from the impact caused by suspension of business and operation in 2020 caused by the outbreak of COVID-19. In light of such, the Company applied the actual Gas Volume for the year ending 31 December 2021 as the basis for the Contractual Amount, thereby reducing the likelihood and extent of reliance on Non-Contractual Amount, which is believed to be more expensive when compared to the price under the Contractual Amount.

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## LETTER FROM THE BOARD

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The Contractual Gas Sourcing Price is in essence a sum of the Gas Purchase Price and a gas allocation price which is regulated by the TDRC from time to time, while the Non-Contractual Gas Sourcing Price is in essence a sum of the Gas Purchase Price and a gas allocation price of RMB0.2 per cubic metre, which was arrived at after arm's length negotiation between the Company and Jinran China Resources. Having considered the pipeline length for natural gas transmission by Jinran China Resources pursuant to the 2022 Gas Supply Contract, the Board is of the view that the gas allocation fee for Non-Contractual Gas of RMB0.2 per cubic metre represents a unit cost per kilometre of gas transportation for Gas Supply, which is comparable to or lower than the unit cost used to be charged by the Company for similar gas transportation service provided to Jinran China Resources, and therefore is fair and reasonable to the Company.

### *Settlement and prepayment of fee*

The Company shall pay Jinran China Resources for the gas supplied monthly, and within two working days upon receipt of the invoice from Jinran China Resources. The amounts payable will be calculated at an estimated Gas Sourcing Price of that Settlement Period with the actual consumption of natural gas by the Company during the month and the discrepancy in the total volume transported (caused by minute leakage during transportation and/or the accuracy of the metre reading, if any) of 3%. Before the 25th day of the month before the beginning of a Settlement Period, (a) the estimated Gas Sourcing Price for the coming Settlement Period will be determined; and (b) the actual Gas Sourcing Price of the prior Settlement Period will be verified in accordance with the Pricing Mechanism. If there is any difference between the verified Gas Sourcing Price and the estimated Gas Sourcing Price (as applied in the monthly payment then already made by the Company), the parties shall settle such difference by way of refund or additional payment (as the case may be).

For gas fee to be incurred in November and December, the Company will prepay 70% of the estimated gas fee for the relevant month in advance. Within two working days upon receipt of the prepayment invoice for such estimated prepayment fees, the Company will examine Jinran China Resources' settlement proof with its upstream source(s) and verify the Gas Sourcing Price, and inform Jinran China Resources the results afterwards. The Company shall pay the remaining balance of the gas fee (30%) within two working days upon confirmation of the amount payable by both parties.

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## LETTER FROM THE BOARD

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The Company shall pay a Prepayment to Jinran China Resources within five working days upon the 2022 Gas Supply Contract taking effect. The Prepayment is calculated in the following manner:

$$\text{Prepayment} = \frac{\text{Total transaction amount of the Gas Supply for the year 2021/365}}{\text{Total transaction amount of the Gas Supply for the year 2021/365}} \times 30$$

Jinran China Resources shall have the right to apply the Prepayment to offset the outstanding gas fees. If the Company fails to pay the Prepayment or the amount of the Prepayment is insufficient to cover the outstanding amount payable by the Company, Jinran China Resources shall have the right to, after serving notice three working days in advance, reduce or suspend the delivery of natural gas until the outstanding payment has been settled.

Having considered that the Prepayment (i) is a condition required by Jinran China Resources (and Jinran China Resources is the sole natural gas wholesaler in Tianjin City and to the Company) to fulfill its prepayment obligations with the ultimate supplier(s); (ii) may be used to offset outstanding gas fees; and (iii) is expected to be less than the monthly average transaction amount of the Gas Supply, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) are of the view that the Prepayment is fair and reasonable, and in the interest of the Company and the Independent Shareholders as a whole.

### *Annual Cap*

The total transaction amount (tax inclusive) under the 2022 Gas Supply Contract for the year ending 31 December 2022 shall not exceed RMB2,070 million.

### **Basis of Determining the Annual Cap and the Pricing Mechanism**

In arriving at the aforesaid annual cap of natural gas supply, the Company has considered, among others, the following factors: (i) the historical transaction figures with Jinran China Resources for Gas Supply; (ii) the estimated increase in Gas Volume for the year ending 31 December 2022; (iii) the potential increase of the Gas Sourcing Price; and (iv) a small additional buffer in case of unexpected fluctuation.

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## LETTER FROM THE BOARD

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**(i) Historical Gas Supply transaction figures with Jinran China Resources**

The table below shows (i) the historical annual caps for Gas Supply for the year ended 31 December 2019 and 2020; and (ii) the actual transaction amount of Gas Supply for the year ended 31 December 2019 and 2020:

	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2019</b>
	<i>RMB' million</i>	<i>RMB' million</i>
Historical annual cap (tax inclusive)	1,879	1,915.2
Actual transaction amount (tax exclusive) (approximate)	1,141	1,293
Actual transaction amount (tax inclusive) (approximate)	1,256	1,409

The annual cap under the 2021 Gas Supply Contract for the year ending 31 December 2021 is RMB1,915 million. Based on the information currently available (subject to final audit), the unaudited actual transaction amount (tax inclusive) for the nine months ended 30 September 2021 was approximately RMB1,035 million.

**(ii) Estimated increase in Gas Volume**

The estimated increase in Gas Volume for the year ending 31 December 2022 is approximately 8.4%, taking into account the average rate of increase of approximately 8.4% in actual Gas Volume for the four years ended 31 December 2019 and the estimated consumption of new customers. The Company believes that the Gas Volume figures in 2020 may not be representative to indicate future gas consumption in light of the suspension and closure of production and business in that year brought by the outbreak of COVID-19. With the pandemic getting stabilised and the resumption of business and operations, the Company expects a recovery or even an increase in gas demand in 2022.

**(iii) Potential increase of Gas Sourcing Price**

The Company estimates that the overall Gas Sourcing Price may potentially increase by approximately 4% for the year 2022 due to the limited supply of natural gas and regulatory measures affecting the demand of natural gas, and the increase in natural gas demand during the winter months in 2022 and for Non-Residential Users during the non-heating season in 2022.



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## LETTER FROM THE BOARD

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### *(iv) Additional buffer*

Taking into account (a) the potential purchase of Non-Contractual Amount of natural gas that is conceivably more expensive than Contractual Amount, (b) the limited supply of natural gas and regulatory measures affecting demand of natural gas, and (c) new customers and demands may emerge in 2022, the Company is of the view that a buffer of approximately 7% shall be added to the estimated demand of natural gas for the year ending 31 December 2022.

In arriving at the Pricing Mechanism, the Company has considered (i) the sourcing prices at which Jinran China Resources sourced its natural gas from the government appointed and regulated ultimate supplier(s) of natural gas in the Tianjin region like PetroChina Company Limited (中國石油天然氣股份有限公司); (ii) the expected fluctuations of such upstream sourcing prices in 2022 based on the Company and management's expertise in the industry; (iii) the fact that Jinran China Resources is the only licensed natural gas wholesaler capable of fulfilling the Company's demand on natural gas and the Company's reliance on Jinran China Resources as an industry norm in Tianjin as a result of the laws and regulations of the PRC; and (iv) the alternative legal means available to the Company to source the natural gas needed and the unit price of gas being substantially higher than the Gas Sourcing Price pursuant to the Pricing Mechanism.

### **INTERNAL CONTROLS**

To ensure the Gas Supply are conducted in accordance with the 2022 Gas Supply Contract and the applicable laws and regulations, the Company has adopted the following internal control procedures:

1. The sales department of the Company pays close attention to the laws and regulations promulgated by the Tianjin Municipal People's Government and/or TDRC applicable to the calculation of the Gas Sourcing Price to ensure that the Gas Supply is conducted in accordance with mandated prices or pricing policy, if any;
2. The sales department of the Company reviews the invoices or any proof of the actual Gas Purchase Price for each Settlement Period presented by Jinran China Resources to ensure the Pricing Mechanism is observed for clearance purpose;
3. The sales department of the Company verifies the applicable Residential Gas Allocation Price, the applicable Non-Residential Gas Allocation Price, and the amounts of Residential Gas and Non-Residential Gas supplied to the Company each month;
4. The internal audit department of the Company verifies the Gas Sourcing Price adopted for clearance for each Settlement Period according to the Pricing Mechanism;

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## LETTER FROM THE BOARD

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5. The finance department and sales department of the Company accesses the reasonableness of the estimated Gas Sourcing Price applicable to Gas Supply in the next Settlement Period with historical and current financial data and operational data;
6. Before payment of the Gas Sourcing Price to Jinran China Resources each month, the sales department of the Company compares the amount of gas actually supplied to the Company with the corresponding month in 2021 to see if the amount of gas supplied is in excess of the Contractual Amount for the month;
7. The finance department of the Company monthly monitors the aggregated invoiced amount arose from the transactions with Jinran China Resources in order to ensure that such aggregated amount will not exceed the applicable annual cap set for the connected transaction concerned. Should such aggregated amount exceed 75% of the applicable annual cap, starting from the month concerned, the finance department of the Company will estimate, by the end of each month, the volume of natural gas to be purchased from Jinran China Resources in the next month based on the volume of natural gas actually purchased from Jinran China Resources monthly throughout the year. The finance department of the Company will then calculate the expected transaction amount of the next month according to the latest estimated Gas Sourcing Price and notify the general manager of the Company of such expected transaction amount and the aggregated transaction amount. The Board shall eventually determine if the annual cap should be revised upward in accordance with the Listing Rules; and
8. The independent non-executive Directors will review the Gas Supply pursuant to Rule 14A.55 of the Listing Rules, and the auditors of the Company will also conduct an annual review on the pricing terms and annual cap under the 2022 Gas Supply Contract.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE 2022 GAS SUPPLY CONTRACT**

Jinran China Resources is the only natural gas wholesaler in the districts in Tianjin in which the Company operates.

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the 2022 Gas Supply Contract is entered into in the usual and ordinary course of business of the Group after arm's length negotiations between the Company and Jinran China Resources, and the terms of the 2022 Gas Supply Contract (including the Pricing Mechanism and the proposed annual cap) are of normal commercial terms or better, which are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM THE BOARD

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### INFORMATION ABOUT THE GROUP

The Group's principal activities are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas in the PRC.

### INFORMATION ABOUT JINRAN CHINA RESOURCES

Jinran China Resources is held as to 51% by Tianjin Gas (a controlling shareholder of the Company) and as to 49% by China Resources Gas Group Limited (a company whose shares are listed on the main board of the Stock Exchange, Stock code: 1193), respectively. It is the sole wholesale supplier of natural gas in Tianjin City and part of the rural areas of Tianjin. The principal businesses of Jinran China Resources include operation of gas pipeline infrastructure, supply of natural gas to other gas supply operators in the Tianjin area, the sales and distribution of piped gas to end users and the sale of gas appliances and equipment in connection with gas supply in certain areas of Tianjin.

The ultimate beneficial owner of Tianjin Gas is the State-owned Assets Supervision and Administration Commission of the Tianjin Municipal People's Government, a special commission directly under the Tianjin Municipal People's Government.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Jinran China Resources was held as to 51% by Tianjin Gas, which is a controlling shareholder of the Company holding 1,297,547,800 Domestic Shares (representing approximately 70.54% of the total issued shares of the Company). Jinran China Resources is hence a connected person of the Company, and the entering into of the 2022 Gas Supply Contract constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) for the annual cap for the 2022 Gas Supply Contract exceeds 5%, the 2022 Gas Supply Contract is subject to, among other things, the Independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

(i) Mr. Hou Shuang Jiang, a non-executive Director, is a director of 天津能源集團財務有限公司 (Tianjin Energy Group Finance Co., Ltd.\*), an indirect non-wholly-owned subsidiary of 天津能源投資集團有限公司 (Tianjin Energy Investment Company Limited\*), which owns the entire equity interest in Tianjin Gas; and (ii) Mr. Zhao Heng Hai, a non-executive Director, is a director of Jinran China Resources. Accordingly, both of them have abstained from voting on the Board resolutions in relation to the 2022 Gas Supply Contract. Save as disclosed above, none of the Directors has a material interest in the 2022 Gas Supply Contract.

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## LETTER FROM THE BOARD

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Tianjin Gas and its associates, which held 1,297,547,800 Domestic Shares, representing approximately 70.54% of the total issued share capital of the Company as of the Latest Practicable Date, will abstain from voting on the resolution to be proposed at the EGM in connection with the 2022 Gas Supply Contract. Save as disclosed above, none of the Shareholders have material interest in the 2022 Gas Supply Contract and are required to abstain from voting on the aforesaid resolution at the EGM so far as the Directors are aware of.

### GENERAL

The Company has established the Independent Board Committee, which consists of the independent non-executive Directors, to advise the Independent Shareholders on the 2022 Gas Supply Contract. The Company has appointed Gram Capital to advise the Independent Board Committee and Independent Shareholders on the above matter.

### EXTRAORDINARY GENERAL MEETING

Ordinary resolution in respect of the 2022 Gas Supply Contract will be proposed at the EGM to be held at 3:00 p.m. on 31 December 2021 (Friday) at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC. Voting at the EGM shall be taken on a poll.

The notice of the EGM, together with the proxy form have been published and despatched to the Shareholders on 9 December 2021 and will remain unchanged and valid for the EGM. Whether or not you are able to attend (if you are so entitled to) the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return them as soon as possible to the Company's office in the PRC at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM (if applicable).

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 20 of this circular which contains its recommendation to the Independent Shareholders concerning the 2022 Gas Supply Contract; and (ii) the letter from Gram Capital set out on pages 21 to 34 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2022 Gas Supply Contract and the principal factors and reasons considered by it in formulating its advice and recommendation.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the terms of the 2022 Gas Supply Contract and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,  
By Order of the Board  
**Tianjin Jinran Public Utilities Company Limited**  
**Zhao Wei**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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天津津燃公用事業股份有限公司

**Tianjin Jinran Public Utilities Company Limited**

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

(Stock Code: 01265)

15 December 2021

*To the Independent Shareholders*

**RENEWAL OF CONTINUING CONNECTED TRANSACTION  
IN RELATION TO GAS SUPPLY**

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) of the Company dated 15 December 2021 despatched to the Shareholders, of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the 2022 Gas Supply Contract and the transactions contemplated thereunder are fair and reasonable. Gram Capital has been appointed to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board set out on pages 6 to 19 of the Circular and the letter from Gram Capital set out on pages 21 to 34 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of Gram Capital set out in its letter of advice set out in the Circular, we are of the opinion that the terms of the 2022 Gas Supply Contract and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and 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 resolution in respect of the 2022 Gas Supply Contract and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Zhang Ying Hua**

*Independent non-executive*

*Director*

**Mr. Yu Jian Jun**

*Independent non-executive*

*Director*

**Mr. Guo Jia Li**

*Independent non-executive*

*Director*

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## LETTER FROM GRAM CAPITAL

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Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2022 Gas Supply Contract for the purpose of inclusion in this circular.



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

15 December 2021

To: *The Independent Board Committee and the Independent Shareholders  
of Tianjin Jinran Public Utilities Company Limited*

Dear Sir/Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2022 Gas Supply Contract (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 15 December 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As the 2021 Gas Supply Contract will expire on 31 December 2021, on 6 December 2021, the Company and Jinran China Resources entered into the 2022 Gas Supply Contract for the period from 1 January 2022 to 31 December 2022.

With reference to the Board Letter, the Transactions constitute continuing connected transaction of the Company and are subject to, *inter alia*, the Independent Shareholders’ approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM GRAM CAPITAL

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The Independent Board Committee comprising Mr. Zhang Ying Hua, Mr. Yu Jian Jun and Mr. Guo Jia Li (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to (i) a continuing connected transaction of the Company (details of which were set out in the Company's circular dated 11 December 2019); (ii) continuing connected transactions of the Company (details of which were set out in the Company's circular dated 15 March 2021); (iii) continuing connected transactions of the Company (details of which were set out in the Company's circular dated 9 June 2021); (iv) continuing connected transactions of the Company (details of which were set out in the Company's circular dated 5 July 2021); and (v) continuing connected transactions of the Company (details of which were set out in the Company's circular dated 7 October 2021). Other than the aforesaid engagements, Gram Capital had not provided any services to the Company during the past two years immediately preceding the Latest Practicable Date.

As the aforesaid engagements were independent financial adviser engagements, they do not affect our independence to act as the Independent Financial Adviser.

Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.



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## LETTER FROM GRAM CAPITAL

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### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 the 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Jinran China Resources or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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## LETTER FROM GRAM CAPITAL

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Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

#### **1. Background of and reasons for the Transactions**

##### **Information on the Group**

With reference to the Board Letter, the Group's principal activities are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas in the PRC.

With reference to the Company's annual report for the year ended 31 December 2020, the Group recorded revenue of approximately RMB1.34 billion for the year ended 31 December 2020 ("FY2020"). Revenue from the sales of piped gas segment amounted to approximately RMB1.28 billion for FY2020, contributing approximately 95.1% of the Group's revenue for FY2020 (for the year ended 31 December 2019: 95.3%). With reference to the Company's interim report for the six months ended 30 June 2021 ("HY2021"), the Group recorded revenue of approximately RMB785.18 million for the six months ended 30 June 2021. Revenue from the sales of piped gas segment amounted to approximately RMB764.68 million for HY2021, contributing approximately 97.4% of the Group's revenue for HY2021 (for the six months ended 30 June 2020: approximately 97.7%).

##### **Information on Jinran China Resources**

With reference to the Board Letter, Jinran China Resources is held as to 51% by Tianjin Gas (a controlling shareholder of the Company) and as to 49% by China Resources Gas Group Limited (a company whose shares are listed on the main board of the Stock Exchange, Stock code: 1193), respectively. It is the sole wholesale supplier of natural gas in Tianjin City and part of the rural areas of Tianjin. The principal businesses of Jinran China Resources include operation of gas pipeline infrastructure, supply of natural gas to other gas supply operators in the Tianjin area, the sales and distribution of piped gas to end users and the sale of gas appliances and equipment in connection with gas supply in certain areas of Tianjin.

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## LETTER FROM GRAM CAPITAL

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### **Reasons for and benefits of the Transactions**

With reference to the Board Letter, Jinran China Resources is the only natural gas wholesaler in the districts in Tianjin in which the Company operates. As advised by the Directors, as the Group's revenue are mostly derived from the sales of piped gas, it is important to secure the local natural gas supply to the Company.

As further advised by the Directors, the purchase and sales of natural gas are conducted in the ordinary course of business of the Group, and on a continuous and regular basis. Accordingly, the Directors are of the view that the Transactions will be beneficial to the Company and the Shareholders as a whole.

In view of the above factors, we concur with the Directors that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

### **2. Principal terms of the Transactions**

Set out below are the principal terms of the 2022 Gas Supply Contract as extracted from the Board Letter.

#### **Date**

6 December 2021

#### **Contracting parties**

Jinran China Resources (as supplier) and the Company (as purchaser)

#### **Pricing policy**

Pursuant to the 2022 Gas Supply Contract, Jinran China Resources has agreed to supply to the Company, and the Company has agreed to source from Jinran China Resources, natural gas at the Gas Sourcing Price. The Gas Sourcing Price in each Settlement Period shall be determined as follows:

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## LETTER FROM GRAM CAPITAL

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The Gas Sourcing Price applicable to Gas Supply is a volume-weighted average of the sum of two transaction amounts weighed by the Total Amount of Gas Supply. The said two transaction amounts are (a) Contractual Gas Sourcing Price times Contractual Amount of Gas Supply, and (b) Non-Contractual Gas Sourcing Price times Non-Contractual Amount of Gas Supply. The formula for the calculation of Gas Sourcing Price is as follows (please also refer to dendrogram for illustration in the section headed “Gas Supply in 2022 and pricing policy” of the Board Letter):

$$\text{Gas Sourcing Price} = \frac{(\text{Contractual Gas Sourcing Price} \times \text{Contractual Amount} + \text{Non-Contractual Gas Sourcing Price} \times \text{Non-Contractual Amount})}{\text{Total Amount}}$$

*I) First Component: Contractual Gas Sourcing Price*

*In a Settlement Period:*

$$\text{Contractual Gas Sourcing Price} = \frac{((\text{Residential Gas Purchase Price} + \text{Residential Gas Allocation Price}) \times \text{Contractual Residential Gas Amount} + (\text{Non-Residential Gas Purchase Price} + \text{Non-Residential Gas Allocation Price}) \times \text{Contractual Non-Residential Gas Amount})}{\text{Contractual Amount}}$$

1. As advised by the Directors, Jinran China Resources will be required to provide proof to the Company, as part of the Company’s internal control measures, as to:
  - (i) the applicable “Residential Gas Purchase Price”, being the price per cubic metre at which Jinran China Resources purchases natural gas for Residential Users from its supplier(s) and supplied to the Company in a Settlement Period (the amount of such gas, after being verified by the Company, the “**Residential Gas Amount**”);
  - (ii) the applicable “Non-Residential Gas Purchase Price”, being the price per cubic metre at which Jinran China Resources purchases natural gas for Non-Residential Users from its supplier(s) and supplied to the Company in a Settlement Period (the amount of such gas, after being verified by the Company, the “**Non-Residential Gas Amount**”);
  - (iii) the applicable “Residential Gas Allocation Price”, being the price per cubic metre for Residential Gas Amount, at which Jinran China Resources can charge under the directions of TDRC (if any) from time to time, in excess of the Residential Gas Purchase Price in a Settlement Period;

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## LETTER FROM GRAM CAPITAL

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(iv) the applicable “Non-Residential Gas Allocation Price”, being the price per cubic metre for Non-Residential Gas Amount, at which Jinran China Resources can charge under the directions, if any, of TDRC from time to time in excess of the Non-Residential Gas Purchase Price in a Settlement Period.

2. “Contractual Residential Gas Amount” equals to:

Residential Gas Amount in a Settlement Period/Total Amount x Contractual Amount of such Settlement Period

3. “Contractual Non-Residential Gas Amount” equals to:

Non-Residential Gas Amount in a Settlement Period/Total Amount x Contractual Amount of such Settlement Period

4. “Contractual Amount” is set at the actual total volume of natural gas sourced by the Company from Jinran China Resources in the year ending 31 December 2021.

5. “Total Amount” equals to the total volume of natural gas sourced by the Company from Jinran China Resources.

### II) *Second component: Non-Contractual Gas Sourcing Price*

*In a Settlement Period:*

Non-Contractual Gas Sourcing Price = Gas Purchase Price for Non-Contractual Amount + RMB0.2 per cubic metre

1. Jinran China Resources will be required to provide proof to the Company as to the calculation of the Gas Purchase Price for Non-Contractual Amount, being the purchase price of natural gas paid by Jinran China Resources to its upstream suppliers for Non-Contractual Amount of natural gas;

2. “Non-Contractual Amount” equals to Total Amount minus Contractual Amount.

### III) *Combining the first and second components: Gas Sourcing Price applicable to Gas Supply in each month of a Settlement Period*

Gas Sourcing Price = (Contractual Gas Sourcing Price x Contractual Amount + Non-Contractual Gas Sourcing Price x Non-Contractual Amount) ÷ Total Amount

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## LETTER FROM GRAM CAPITAL

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Notwithstanding the aforesaid Pricing Mechanism, in the event there is any change in the national policy which affect the Gas Sourcing Price or its pricing mechanism, the national pricing policy shall be followed.

In the event that the Company would like to discount the unit price of natural gas consumed or to be consumed by certain strategic customers who are not connected persons of the Company, Jinran China Resources and the Company may execute a supplemental agreement under which the discounted sum will be borne by both parties at a proportion to be stipulated.

In respect of the Gas Sourcing Price for the Contractual Amount, as advised by the Directors, Jinran China Resources would only offer the Gas Sourcing Price to the Company instead of offering a gas sourcing price for Residential Users and another gas sourcing price for Non-residential Users. As such, the Gas Sourcing Price to be offered by Jinran China Resources to the Company is a comprehensive selling price taking into account of gas purchase price of Jinran China Resources from its supplier, the allocation price (which can be charged by Jinran China Resources under the directions, if any, of TDRC from time to time), the proportion of Contractual Residential Gas Amount to the Total Amount, and the proportion of the Contractual Non-Residential Gas Amount to the Total Amount. We consider the Pricing Mechanism for calculation of Gas Sourcing Price for Contractual Amount is fair and reasonable.

In respect of the Non-Contractual Amount, the Gas Sourcing Price equals to the Gas Purchase Price for Non-Contractual Amount plus RMB0.2 per cubic metre. The Directors advised us that the additional cost (i.e. RMB0.2 per cubic metre, the “**Additional Fee**”) represents gas transportation cost charged by Jinran China Resources regarding the transmit natural gas via its pipelines.

For our due diligence purpose, we noted that the Company previously entered into a gas transportation contract with Jinran China Resources in relation to the natural gas transmission by Jinran China Resources through the gas pipelines owned and managed by the Company for a period ending 31 December 2023. Pursuant to such contract, the gas transportation fees are calculated based on the actual volume of natural gas and actual distance transmitted at RMB0.8 per 1,000 cubic metres per kilometre (i.e. RMB0.0008 per cubic metre per kilometre). Upon our request, the Directors advised us that the pipeline length for natural gas transmission by Jinran China Resources to the Group pursuant to the 2022 Gas Supply Contract is approximately 273.59 kilometres (the “**Pipeline Length**”). We noted that the implied cost of Additional Fee of approximately RMB0.0007 per cubic metre per kilometre (i.e. the Additional Fee divided by Pipeline Length) is less than the cost of gas transportation fees (per cubic metre per kilometre) under the gas transportation contract. As such, we consider the Additional Fee to be fair and reasonable. Accordingly, we consider the Pricing Mechanism for calculation of Gas Sourcing Price for Non-Contractual Amount is fair and reasonable.

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## LETTER FROM GRAM CAPITAL

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Having considered the above analyses for Gas Sourcing Price for Contractual Amount and Gas Sourcing Price for Non-Contractual Amount (the Pricing Mechanism for both prices being fair and reasonable) and the Gas Sourcing Price to Gas Supply is a volume-weighted average of the sum of (a) Contractual Gas Sourcing Price times Contractual Amount of Gas Supply, and (b) Non-Contractual Gas Sourcing Price times Non-Contractual Amount of Gas Supply, weighed by the Total Amount of Gas Supply (i.e. sum of Contractual Amount of Gas Supply and Non-Contractual Amount of Gas Supply), we are of the view that the Pricing Mechanism for calculation of Gas Sourcing Price to Gas Supply is fair and reasonable.

With reference to the Board Letter, the Group has adopted certain internal control procedures in relation to the Transactions, details of which are set out in the sub-sections headed “INTERNAL CONTROLS” of the Board Letter. Having considered, in particular, that

- (i) the Company’s sales department would (a) pay close attention to any laws and regulations promulgated by Tianjin Municipal People’s Government and/or TDRC from time to time that is applicable to calculation of the Gas Sourcing Price; (b) review the invoices or any proof of the actual Gas Purchase Price for each Settlement Period presented by Jinran China Resources; and (c) verify the applicable Residential Gas Allocation Price, the applicable Non-Residential Gas Allocation Price and amounts of Residential Gas and Non-Residential Gas supplied to the Company each month; and (d) compare the amount of gas actually supplied to the Company with the corresponding month in 2021 to see if the amount of gas supplied is in excess of the Contractual Amount for the month;
- (ii) the Company’s internal audit department would verify the Gas Sourcing Price adopted for clearance for each Settlement Period according to the Pricing Mechanism;
- (iii) the Company’s finance department and the sales department would assess the reasonableness of the estimated Gas Sourcing Price applicable to the Gas Supply in the next Settlement Period with historical and current financial data and operational data;
- (iv) the Group also adopted procedures to govern the utilization of proposed annual caps, pursuant to which the finance department of the Company will estimate the volume of natural gas to be purchased from Jinran China Resources in the next month based on the volume of natural gas actually purchased from Jinran China Resources monthly throughout the year if the utilization rate of proposed annual caps exceed 75%,

we consider that there are sufficient measures to ensure fair pricing of the Transactions and the actual transaction amounts not to exceed the proposed annual cap.

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## LETTER FROM GRAM CAPITAL

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### **Settlement**

The Company shall pay Jinran China Resources for the gas supplied monthly, and within two working days upon receipt of the invoice from Jinran China Resources. The amounts payable will be calculated at an estimated Gas Sourcing Price of that Settlement Period with the actual consumption of natural gas by the Company during the month and the discrepancy in the total volume transported (caused by minute leakage during transportation and/or the accuracy of the metre reading, if any) of 3% (the “**Discrepancy**”). Before the 25th day of the month before the beginning of a Settlement Period, (a) the estimated Gas Sourcing Price for the coming Settlement Period will be determined; and (b) the actual Gas Sourcing Price of the prior Settlement Period will be verified in accordance with the Pricing Mechanism. If there is any difference between the verified Gas Sourcing Price and the estimated Gas Sourcing Price (as applied in the monthly payment then already made by the Company), the parties shall settle such difference by way of refund or additional payment (as the case may be).

For gas fee to be incurred in November and December, the Company will prepay 70% of the estimated gas fee for the relevant month in advance. Within two working days upon receipt of the prepayment invoice for such estimated prepayment fees, the Company will examine Jinran China Resources, settlement proof with its upstream source(s) and verify the Gas Sourcing Price, and inform Jinran China Resources the results afterwards. The Company shall pay the remaining balance of the gas fee (30%) within two working days upon confirmation of the amount payable by both parties.

In relation to the Discrepancy, the Directors advised us that the Company had made similar arrangement previously due to (i) gas leakage from the pipelines during its normal course of operation and (ii) the discrepancy in the reading of gas meters. We consider the settlement arrangement to be justifiable.

### **Prepayment**

The Company shall pay a Prepayment to Jinran China Resources within five working days upon the 2022 Gas Supply Contract taking effect. The Prepayment is calculated in the following manner:

Prepayment = Total sum of the transaction amount of the Gas Supply for the year 2021/365 x 30

Jinran China Resources shall have the right to apply the Prepayment to offset the outstanding gas fees. If the Company fails to pay the Prepayment or the amount of the Prepayment is insufficient to cover the outstanding amount payable by the Company, Jinran China Resources shall have the right to, after serving notice three working days in advance, reduce or suspend the delivery of natural gas until the outstanding payment has been settled.



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## LETTER FROM GRAM CAPITAL

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As advised by the Directors, upon expiry of the 2022 Gas Supply Contract, the Prepayment shall be refunded to the Company by Jinran China Resources or used to offset the gas fees for the relevant month(s) at the end of 2022.

Having considered that the Prepayment shall be refunded to the Company by Jinran China Resources or used to offset the gas fees for the relevant month(s) at the end of 2022, we consider the Prepayment arrangement to be justifiable.

### **Annual cap**

In any event, the total transaction amount (tax inclusive) under the 2022 Gas Supply Contract for the year ending 31 December 2022 shall not exceed RMB2,070,000,000. Detailed bases for the determination of the proposed annual cap for the year ending 31 December 2022 were set out under the section headed “Basis of Determining the Annual Cap and the Pricing Mechanism” of the Board Letter.

To assess the fairness and reasonableness of the proposed annual cap, we obtained and reviewed the calculation of the proposed annual cap. We noted from the calculation that the proposed annual cap was estimated based on (i) the estimated transaction amount in 2022 based on existing demand (i.e. the historical transaction amount in 2021; and taking into account the estimated increase in volume of natural gas purchased by the Group from Jinran China Resources (i.e. Gas Volume) of approximately 8.4%, the estimated increase in Gas Sourcing Price of approximately 4% in 2022 and a buffer of approximately 7%); and (ii) estimated transaction amount from new customers consumption, representing approximately 10% of the estimated transaction amount in 2022 based on existing demand (i.e. the proposed annual cap  $\approx$  estimated transaction amount in 2021  $\times$  1.084  $\times$  1.03  $\times$  1.07 + estimated transaction amount from new customers consumption).

### *Estimated transaction amount in 2022 based on existing demand*

We noted from the calculation that the estimated transaction amount in 2022 based on existing demand was determined based on the historical transaction amount in 2021 taking into account the estimated increase in volume of natural gas purchased by the Group from Jinran China Resources (i.e. Gas Volume) of approximately 8.4%, the estimated increase in Gas Sourcing Price of approximately 4% in 2022 and a buffer of approximately 7%.

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## LETTER FROM GRAM CAPITAL

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Based on the calculation, the estimated Gas Volume in 2021 equals to the sum of historical Gas Volume during the nine months ended 30 September 2021 and the estimated Gas Volume for the three months ending 31 December 2021. We noted that the Gas Volume for the nine months ended 30 September 2021 accounted for approximately 71% to the estimated Gas Volume in 2021, which is in line with the proportion of Gas Volume for the nine months ended 30 September 2019 to total Gas Volume in 2019 (i.e. approximately 73%) <sup>(Note)</sup>. Accordingly, we consider the estimated Gas Volume in 2021 to be justifiable.

As advised by the Directors, the estimated increase in Gas Volume in 2022 was determined based on the average increase in actual Gas Volume during recent years (i.e. historical volume from 2016 to 2019) <sup>(Note)</sup>. For our due diligence purpose, we obtained figures of the Gas Volume for each of the four years ended 31 December 2019. We noted that average growth rate during 2016 to 2019 were as follows:

<b>Period</b>	<b>Increase/ (decrease) rate in Gas Volume</b>
From 2016 to 2017	20.8%
From 2017 to 2018	5.6%
From 2018 to 2019	(1.1%)
<b>Average</b>	<b>8.4%</b>

Based on the table above, the estimated increase in Gas Volume of 8.4% in 2022 adopted by the Company is in line with the average annual increase rate in Gas Volume of approximately 8.4%. Accordingly, we consider the estimated increase in Gas Volume in 2022 of approximately 8.4% to be justifiable.

We understood from the Directors that the Gas Sourcing Price was mandated by the TDRC in the past. However, with effect from 2017, the TDRC no longer mandates the Gas Sourcing Price and Jinran China Resources has the discretion to determine the allocation price (which constitutes part of the Gas Sourcing Price) under the directions of the TDRC. As advised by the Directors, the estimated increase in Gas Sourcing Price in 2022 was determined based on historical increase in Gas Sourcing Price from 2017 to 2019 <sup>(Note)</sup>. Based on the historical figures, we noted that the average annual increase in Gas Sourcing Price amounted to approximately 4.1%, which is in line with the Directors' estimation. Accordingly, we consider the estimated increase in Gas Sourcing Price of approximately 4.0% to be justifiable.

*Note: Taking into account the effect of COVID-19 in 2020, historical transaction amount in 2020 was considered as a meaningless reference. Therefore, the historical transaction amount for 2020 was excluded from the historical analyses.*

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## LETTER FROM GRAM CAPITAL

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As mentioned earlier, the Directors applied a buffer of approximately 7% when determining the estimated transaction amount in 2022 based on existing demand. Having considered that the buffer was applied for unforeseeable circumstances such as (a) possible price adjustment on the Gas Purchase Price; (b) the purchase of Non-Contractual Amount; and (c) the unexpected increase in demand from customers. As advised by the Directors, such buffer was arrived after consultation with the relevant operational department and finance department of the Group. We consider the application of buffer to be justifiable.

### *Estimated transaction amount from new customers consumption*

According to the calculation, the Company also took into account the estimated transaction amount from two new customers (which were not considered in the historical transaction in 2021). As advised by the Directors, such estimated transaction amount was estimated based on the Company's understanding on such customers and such transaction amount represents approximately 10% of the estimated transaction amount in 2022 based on existing demand. The Directors expected the two customers to become the Group's major customers. For our due diligence purpose, we obtained (i) a breakdown showing the estimated gas volume to be sold to the two customers and (ii) the estimated gas volume to be sold to the Group's 10 major customers in 2022. We noted that the estimated gas volume sold to the two new customers are within the range of gas volume to be sold to the Group's major 10 customers in 2022. Accordingly, we do not doubt the estimated transaction amount from the two new customers.

In light of the above, we concur with the Directors that the proposed annual cap for the year ending 31 December 2022 is fair and reasonable and in the interests of the Company and the Shareholders.

Shareholders should note that as the proposed annual cap are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of cost to be incurred from the Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Transactions will correspond with the proposed annual cap.

In light of the above, we are of the view that the terms of the Transactions are on normal commercial terms and are fair and reasonable.

### **3. Listing Rules implication**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transactions must be restricted by the proposed annual cap; (ii) the terms of the Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports.

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## LETTER FROM GRAM CAPITAL

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Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transaction; and (iii) have exceeded the proposed annual cap.

In the event that the total amounts of the Transactions are anticipated to exceed the proposed annual cap, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transactions and thus the interest of the Independent Shareholders would be safeguarded.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.*

## 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. DISCLOSURE OF INTERESTS

### (a) Directors' and supervisors' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors, supervisors (the “**Supervisors**”) and chief executives of the Company which have been 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 were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) are as follows:

#### *Long position*

#### *Domestic Shares*

Name of Director/Supervisor	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/ Domestic Shares
Ms. Tang Jie	Beneficial owner	41,700,000	2.27%/3.11%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or 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 corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the interest of the persons, other than Directors, Supervisors or chief executives of the Company, in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

***Long position******Domestic Shares***

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Domestic Shares interested</b>	<b>Approximate percentage of interests in the Company/ Domestic Shares</b>
Tianjin Gas	Beneficial owner	1,297,547,800	70.54%/96.89%
天津能源投資集團有限公司 Tianjin Energy Investment Company Limited (“ <b>Tianjin Energy</b> ”) (Note 1)	Interest of a controlled corporation	1,297,547,800	70.54%/96.89%
天津國有資本投資運營有限公司 (Tianjin State-owned Capital Investment Management Co., Ltd.*) (Note 2)	Interest of a controlled corporation	1,297,547,800	70.54%/96.89%
中國建設銀行股份有限公司天津 市公司 (China Construction Bank Corporation (Tianjin Branch*)) (“ <b>CCB Tianjin</b> ”) (Note 3)	Other	1,297,547,800	70.54%/96.89%

**Notes:**

1. Tianjin Energy is the intermediary holding company of Tianjin Gas. Therefore Tianjin Energy is deemed, or taken to be interested in all the Domestic Shares beneficially held by Tianjin Gas for the purpose of the SFO.
2. 天津國有資本投資運營有限公司 (Tianjin State-owned Capital Investment Management Co., Ltd.\*) is the holding company of Tianjin Energy and is therefore deemed, or take to be interested in all the Domestic Shares beneficially held by Tianjin Gas for the purpose of the SFO.

3. On 6 May 2020, 天津國有資本投資運營有限公司 (Tianjin State-owned Capital Investment Management Co., Ltd.\*) has charged 100% equity interest in Tianjin Energy (which own 100% equity interest in Tianjin Gas) to CCB Tianjin. Therefore CCB Tianjin is taken to be interested in all the Domestic Shares beneficially held by Tianjin Gas for the purpose of the SFO.

### ***Long position***

#### *H Shares*

Name of Shareholders	Capacity	Number of H Shares interested	Approximate percentage of interests in the Company/H Shares
Liu Hei Wan	Interests held jointly with another person (Note 1)	14,500,000	0.79%/2.90%
	Held by controlled corporation (Note 2)	30,000,000	1.63%/6.00%
Law Suet Yi	Interests held jointly with another person (Note 1)	14,500,000	0.79%/2.90%
	Interest of spouse (Note 3)	30,000,000	1.63%/6.00%
The Waterfront Development Group Limited	Beneficial owner (Note 2)	30,000,000	1.63%/6.00%

#### *Notes:*

- As at the Latest Practicable Date, Mr. Liu Hei Wan and Ms. Law Suet Yi jointly held 14,500,000 H Shares.
- The Waterfront Development Group Limited is wholly-owned by Mr. Liu Hei Wan and thus a controlled corporation by Mr. Liu Hei Wan. Therefore, Mr. Liu Hei Wan is deemed, or taken to be, interested in the 30,000,000 H Shares which are beneficially owned by The Waterfront Development Group Limited for the purpose of the SFO.
- Ms. Law Suet Yi is the spouse of Mr. Liu Hei Wan and therefore, Ms. Law Suet Yi is deemed, or taken to be, interested in all the shares in which Mr. Liu Hei Wan is interested for the purpose of SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any person, not being a Director, chief executive or supervisor of the Company, have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

### **3. DIRECTORS' INTERESTS IN CONTRACTS**

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

### **4. COMPETING INTERESTS**

Each of the Directors has confirmed that he/she and his/her respective close associates do not have any interest in a business which competes or may compete with the business of the Group.

Based on the above, as at the Latest Practicable Date, none of the Directors was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

### **5. LITIGATION**

As at the Latest Practicable Date, no litigation or claim of material importance was known to the Board or the Company to be pending or threatened by or against any member of the Group.

### **6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors nor Supervisors had a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### **7. DISCLOSURE OF INTEREST, CONSENT AND QUALIFICATION OF EXPERT**

The following are the qualifications of the professional adviser who has given the Company an opinion or provided advice referred to or contained in this circular:

Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
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As at the Latest Practicable Date, Gram Capital had no beneficial interest in the share capital of any member of the Group nor any 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, Gram Capital had no direct or indirect interest in any assets which has 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 were proposed to be acquired or disposed of by or leased to, any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, as the case may be, and references to its name and/or its opinion or report included in this circular in the form and context in which they respectively included.

The letter from Gram Capital dated 15 December 2021 on pages 21 to 34 is given for incorporation herein.

## **8. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, none of the Directors or Supervisors was interested in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, the date to which the latest published audited accounts of the Company were made up.
- (b) As at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 31 December 2020.

## **9. DOCUMENT AVAILABLE FOR INSPECTION**

Copies of the following document will be available on display on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.jinrangongyong.com](http://www.jinrangongyong.com)) during a period of 14 days from the date of this circular:

- (a) the 2022 Gas Supply Contract.