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

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

**CONNECTED TRANSACTION
IN RELATION TO
THE PIPELINE NETWORK LEASE AGREEMENT**

PIPELINE NETWORK LEASE AGREEMENT

The Board wishes to announce that on 31 December 2021 (after trading hours), the Company entered into the Pipeline Network Lease Agreement with Jiaxing Pipeline Company. Pursuant to the Pipeline Network Lease Agreement, Jiaxing Pipeline Company, as lessor, agreed to lease to the Company certain pipeline network in Jiaxing Urban Area for a period from 1 January 2021 to 31 December 2032, subject to and in accordance with the terms and conditions of the Pipeline Network Lease Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Jiaxing Pipeline Company is a direct wholly-owned subsidiary of City Development, a Substantial Shareholder of the Company. As such, Jiaxing Pipeline Company is regarded as an associate of City Development, and hence a connected person of the Company pursuant to Rule 14A.13(1) of the Listing Rules.

In accordance with IFRS 16, the Group will recognise right-of-use assets in relation to the fixed term leases in form of an asset (representing the right to use the underlying assets during the lease term) and a corresponding lease liability (for the obligations to make future lease payment during the lease term). The Pipeline Network Lease Agreement is subject to a fixed term and is regarded as a one-off connected acquisition of capital asset (i.e. the leased pipeline) under the Listing Rules. Accordingly, the transactions contemplated under the Pipeline Network Lease Agreement will be recognised as acquisitions of right-of-use assets which will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Shareholders should note that the above value of right-of-use assets is unaudited and may be subject to adjustment in the future.

As all the applicable percentage ratios in respect of the unaudited value of the right-of-use assets to be recognised by the Group in connection with the Pipeline Network Lease Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Pipeline Network Lease Agreement are subject to announcement requirement but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board wishes to announce that on 31 December 2021 (after trading hours), the Company entered into the Pipeline Network Lease Agreement with Jiaxing Pipeline Company. Pursuant to the Pipeline Network Lease Agreement, Jiaxing Pipeline Company, as lessor, agreed to lease to the Company certain pipeline network in Jiaxing Urban Area for a period from 1 January 2021 to 31 December 2032, subject to and in accordance with the terms and conditions of the Pipeline Network Lease Agreement.

THE PIPELINE NETWORK LEASE AGREEMENT

A summary of the principal terms of the Pipeline Network Lease Agreement are set out below:

Date:	31 December 2021 (after trading hours)
Parties:	(i) Jiaxing Pipeline Company (as lessor) (ii) The Company (as lessee)
Assets to be leased:	Certain pipeline network in Jiaxing Urban Area of approximately 6.83 kilometers
Lease term:	From 1 January 2021 to 31 December 2032
Annual rental:	The annual rental fee for the first year shall be RMB559,186.24 payable by the Company in cash on or before 31 December 2021 and, thereafter, shall be RMB660,916.28 per year payable by the Company in cash on or before 30 September of each year.

Termination: Both parties can alter the terms of or terminate the Pipeline Network Lease Agreement by consent.

The Pipeline Network Lease Agreement shall automatically terminate in the event that the Company acquires the ownership of all the leased pipeline networks.

During the term of the Pipeline Network Lease Agreement, in the event of early termination due to the natural gas system reform or change in shareholding of Jiaxing Pipeline Company, Jiaxing Pipeline Company may terminate the agreement by giving 30 days' of prior notice to the Company in advance.

INFORMATION ABOUT THE PARTIES INVOLVED

The Company principally engaged in the distribution and sales of gas in the Jiaxing Operating Area, the provision of construction and installation services of gas pipeline network in Own Pipeline Area within the Jiaxing Operating Area.

Jiaxing Pipeline Company is a limited liability company established under the laws of the PRC on 2 June 2006. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Jiaxing Pipeline Company principally engaged in the construction of pipeline networks and supply of PNG in Jiaxing as an upstream supplier. It is a direct wholly-owned subsidiary of City Development, which is wholly-owned by 浙江嘉興國有資本投資運營有限公司 (Zhejiang Jiaxing State-owned Capital Investment Management Company Limited*), which is owned as to 4.0429% by 浙江省財務開發有限責任公司 (Zhejiang Financial Development Co., Ltd.*), a wholly-owned entity under 浙江省財政廳 (Zhejiang Provincial Department of Finance*), and as to 95.9571% by 嘉興市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Jiaxing Municipal People's Government*) as at the date of this announcement.

PRICING BASIS OF THE CONNECTED TRANSACTION

The leased pipeline networks were constructed by Jiaxing Pipeline Company in 2021. Based on the information provided by Jiaxing Pipeline Company, it invested in aggregate approximately RMB7,215,243.27 for constructing the leased pipeline networks. The unaudited book value of the leased pipeline networks as at 30 November 2021 was approximately RMB6,892,200.70.

The annual rent payable under the Pipeline Network Lease Agreement is calculated at rate of 9.16% of the total investment cost of the leased pipeline network based on arm's length negotiation, taking into account factors including investment costs, depreciation of pipeline network assets, investment return for Jiaxing Pipeline Company and the corresponding repair and maintenance costs to be incurred by the Group, which is equivalent to approximately RMB0.66 million in aggregate per year. Based on the above, the Board considers that the connected transaction is conducted on normal commercial terms and the rents and terms of the connected transactions are fair and reasonable and in the interest of the Shareholders as a whole.

In accordance with IFRS, the transactions contemplated under the Pipeline Network Lease Agreement will be recognised as acquisitions of right-of-use assets of the Group on 31 December 2021 for an amount of RMB5,418,527.96. The rental fee under the Pipeline Network Lease Agreement is expected to be satisfied by internal resources of the Group in its ordinary and usual course of business.

Shareholders should note that the above value of right-of-use assets is unaudited and may be subject to adjustment in the future.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Pursuant to the Concessions, the Group has the right to construct urban pipeline network within the Own Pipeline Area. Jiaxing Pipeline Company is responsible for investing in and constructing urban pipeline network and gas facilities in the Jiaxing Urban Operating Area which does not form part of Own Pipeline Area according to the Group's business development plans and strategies. The Group manage and arrange for construction of such pipeline network and gas facilities for Jiaxing Pipeline Company, and the Group's main responsibilities include (i) tendering for survey and design institutes, raw material suppliers, construction companies and other services; (ii) assisting in applying for necessary licences and permits; and (iii) arranging for project inspection and audit of the project settlement statement. Since Jiaxing Pipeline Company had invested and owned some pipeline network and gas facilities within the Jiaxing Urban Operating Area which does not form part of Own Pipeline Area at the time the Group was granted the Jiaxing Urban Area Concession, pursuant to the relevant local government's requirement, Jiaxing Pipeline Company and the Company entered into a framework agreement, which was annexed to and formed part of the Jiaxing Urban Area Concession, stipulating that Jiaxing Pipeline Company shall lease all of its invested urban pipeline network and gas facilities in the Jiaxing Urban Operating Area to the Company for its use and operation of its PNG business, which the relevant local government had knowledge of and approved. Since 2009, the Group has been leasing urban pipeline network and gas facilities owned by Jiaxing Pipeline Company in the Jiaxing Urban Operating Area and the Group was responsible for the maintenance and repair of such leased pipelines and facilities.

The Board considers that the entering into of Pipeline Network Lease Agreement enables the Group to secure the use of the leased pipeline networks for a long period of time for the Group's operation in a larger area with lesser capital investment.

Mr. He Yujian, being the chairman of Jiaxing Pipeline Company and a non-executive Director of the Company, has abstained from voting on the board resolution approving the Pipeline Network Lease Agreement and the transactions contemplated thereunder.

The Directors, including the independent non-executive Directors, are of the view that the Pipeline Network Lease Agreement and the transactions contemplated thereunder were entered in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Jiaxing Pipeline Company is a direct wholly-owned subsidiary of City Development, a Substantial Shareholder of the Company. As such, Jiaxing Pipeline Company is regarded as an associate of City Development, and hence a connected person of the Company pursuant to Rule 14A.13(1) of the Listing Rules.

In accordance with IFRS 16, the Group will recognise right-of-use assets in relation to the fixed term leases in form of an asset (representing the right to use the underlying assets during the lease term) and a corresponding lease liability (for the obligations to make future lease payment during the lease term). The Pipeline Network Lease Agreement is subject to a fixed term and is regarded as a one-off connected acquisition of capital asset (i.e. the leased pipeline) under the Listing Rules. Accordingly, the transactions contemplated under the Pipeline Network Lease Agreement will be recognised as acquisitions of right-of-use assets which will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Shareholders should note that the above estimated value of right-of-use assets is unaudited and may subject to adjustment in the future. The right-of-use assets represent the Group's right to use the underlying leased assets over the lease terms and the lease liabilities represent the Group's obligations to make lease payments. The assets and the liabilities arising from the leases are initially measured on present value basis and calculated by discounting the lease payments under the Pipeline Network Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated financial statements of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use assets; and (ii) interest expenses amortised from the lease liabilities over the lease terms.

As all the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognised by the Group in connection with the Pipeline Network Lease Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Pipeline Network Lease Agreement are subject to announcement requirement but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors
“City Development”	Jiaxing City Investment & Development Group Co., Ltd. (嘉興市城市投資發展集團有限公司), a state-owned enterprise established under the laws of PRC on 21 December 2009, and a Substantial Shareholder of the Company

“Company”	JiaXing Gas Group Co., Ltd.* (嘉興市燃氣集團股份有限公司), a joint stock liability company established under the laws of the PRC, whose issued H Shares are listed on the main board of the Stock Exchange
“Concessions”	the Jiaxing Urban Area Concession and the Jiaxing Port Area Concession
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Domestic Share(s)”	domestic invested ordinary share(s) in the capital of the Company, with a nominal value of RMB1 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board
“Jiaxing Pipeline Company”	Jiaxing Natural Gas Pipeline Network Management Co., Ltd.* (嘉興市天然氣管網經營有限公司), a limited liability company established under the laws of the PRC on 2 June 2006, a direct wholly-owned subsidiary of City Development
“Jiaxing Port Area Concession”	the concession agreement between Jiaxing Port Area Planning Construction Bureau* (嘉興港區規劃建設局) and the Group, with effect from 1 May 2008, to act as the exclusive PNG distributor in Jiaxing Port Operating Area for a period of 25 years, subject to renewal approval upon expiration, together with two supplemental agreements dated 8 May 2019 and 23 May 2019, respectively
“Jiaxing Urban Area”	the area comprised of Xiuzhou District and Nanhu District, with a total area of 987 sq.km., representing 23.1% of Jiaxing in terms of geographical coverage

“Jiaxing Urban Area Concession”	the concession agreement between Jiaxing Planning and Construction Bureau* (嘉興市規劃與建設局), subsequently renamed as Jiaxing Urban and Rural Construction Bureau* (嘉興市住房和城鄉建設局), and the Group, with effect from 1 January 2008, to act as the exclusive PNG distributor in Jiaxing Urban Operating Area for a period of 25 years, subject to renewal approval upon expiration, together with the supplemental agreement dated 8 May 2019
“Jiaxing Urban Operating Area”	the operating area in Jiaxing Urban Area where the Group was granted the exclusive right to the operation and management of medium and low pressure piped gas, including sales of PNG and LPG to users by means of pipeline distribution under the Jiaxing Urban Area Concession
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“LPG”	liquefied petroleum gas, a type of inflammable gas produced during natural gas processing and oil refining, which could be stored as liquid under pressure
“Own Pipeline Area”	<p>the area where the Group was granted the exclusive right to construct urban pipeline network and gas facilities which ownership of the constructed assets belongs to the Group, which refers to:</p> <p>(a) under the Jiaxing Urban Area Concession, the area within the Jiaxing Urban Operating Area, comprising (i) the Central City and part of Nanhu New District that have been developed within the Third Ring Road, specifically, northwest to the New 320 National Road (excluded), and southeast to the Outer Ring Road East (excluded) – Shanghai-Hangzhou Railway – Central Ring Road East (included) – Pinghutang – Central Ring Road South – Shanghai – Hangzhou Railway – Outer Ring Road South (excluded); (ii) Xiuzhou New District Phase II, specifically, east to the New Beijiao River, south to Hangzhoutang, west to Zhapu – Jiaxing – Jiangsu Expressway and north to Xinchengtang; and (iii) Daqiao Town, specifically, east to the New 07 Provincial Road, south to the Central Ring Road South, west to the Xiayi Road and north to the Luli Street Extension; and</p>

- (b) under the Jiaxing Port Area Concession, the area within the Jiaxing Port Operating Area (including Zhapu Town), comprising (i) east to the border of Zhapu Town and Huanggu Town, west to the junction of Zhapu Town and Haiyan Town, north to the Hangzhou – Pudong Expressway and south to the north bank of Hangzhou Bay; and (ii) the whole Jiulong Mountain Tourist Resort

“Pipeline Network Lease Agreement”	the pipeline network lease agreement dated 31 December 2021 entered into between the Company and Jiaxing Pipeline Company for a term of 12 years from 1 January 2021 to 31 December 2032 in relation to the leasing of pipeline networks in Jiaxing Urban Area
“PNG”	natural gas distributed to end users through pipelines
“PRC”	the People’s Republic of China
“Shareholder(s)”	shareholder(s) of the Company
“Shares”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1 each, including both the Domestic Share(s) and the H Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

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

Jiaxing, The PRC, 31 December 2021

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

* For identification purpose only