
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD., you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

(Incorporated in the Cayman Islands with members' limited liability)

(Stock code: 1940)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO GAS PRODUCTS SUPPLY AGREEMENT; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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



A letter from the Board is set out on pages 8 to 23 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 24 to 25 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 45 of this circular.

A notice convening the Extraordinary General Meeting of the Company to be held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 6 January 2023 at 3:00 p.m. (Hong Kong time) is set out on pages 52 to 53 of this circular.

Whether or not you are able to attend the Extraordinary General Meeting, please complete and sign the enclosed form of proxy for use at the Extraordinary General Meeting in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time fixed for the Extraordinary General Meeting (i.e. not later than 3:00 p.m. on Wednesday, 4 January 2023 (Hong Kong time)) or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person or via electronic facilities at the Extraordinary General Meeting if they so wish and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

This circular together with the form of proxy are also published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<http://www.cgiiholdings.com>).

16 December 2022

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SPECIAL ARRANGEMENTS AND PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Voting by proxy in advance of the Extraordinary General Meeting: The Company does not in any way wish to diminish the opportunity available to Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect Shareholders from possible exposure to the COVID-19 pandemic. For the health and safety of Shareholders, the Company would like to **encourage Shareholders to exercise their right to vote at the Extraordinary General Meeting by appointing the chairman of the Extraordinary General Meeting as their proxy instead of attending the Extraordinary General Meeting in person.** Physical attendance is not necessary for the purpose of exercising Shareholder rights. **Completion and return of the proxy form will not preclude Shareholders from attending and voting at the Extraordinary General Meeting or any adjournment thereof should they subsequently so wish.**

The deadline to submit completed proxy forms is Wednesday, 4 January 2023 at 3:00 p.m. (Hong Kong time). Completed proxy forms must be returned to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

To safeguard the health and safety of Shareholders who might be attending the Extraordinary General Meeting in person, the following precautionary measures will be implemented at the Extraordinary General Meeting:

- (i) Compulsory temperature checks will be carried out on every attendee before entering the EGM venue.
- (ii) Every attendee will be required to wear a surgical face mask throughout the Extraordinary General Meeting. Please note that no masks will be provided at the EGM venue and attendances should bring and wear their own masks.
- (iii) Safe distancing measures for queue management and seating at the venue will be maintained.
- (iv) No refreshment or drinks will be provided to attendees at the Extraordinary General Meeting.

Attendees are in addition requested to observe and practise good personal hygiene at all times. To the extent permitted by law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the other attendees at the Extraordinary General Meeting.

Due to the constantly evolving COVID-19 pandemic situation in Hong Kong, the Company may be required to change the Extraordinary General Meeting arrangements at short notice. Shareholders should check the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) or the Company (www.cgiiholdings.com) for future announcements and updates on the Extraordinary General Meeting arrangements.

SPECIAL ARRANGEMENTS AND PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Appointment of proxy by non-registered Shareholders: Non-registered Shareholders whose Shares are held through banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited should consult directly with their banks or brokers or custodians (as the case may be) to assist them in the appointment of proxy.

If Shareholders have any queries relating to the Extraordinary General Meeting, please contact our Company's branch share registrar and transfer office in Hong Kong as follows:-

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Telephone: (852) 2980 1333

Facsimile: (852) 2810 8185

Email: is-enquiries@hk.tricorglobal.com

DEFINITIONS

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

“2018 Operational Utilities and Related Services Agreement”	the operational utilities and related services agreement entered into by Tangshan Plate and TTG in June 2018, pursuant to which Tangshan Plate agreed to provide the utilities and related services to TTG, which was entered into in accordance with and subject to the Master Utilities and Related Service Agreement
“Announcement”	the announcement of the Company dated 29 June 2022 in relation to the Gas Products Supply Agreement and the transactions contemplated thereunder
“Articles of Association”	the articles of association of the Company, and as amended from time to time
“Board”	the board of Directors
“Company”	CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD., a company incorporated under the laws of Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company from time to time
“Extended Terms”	collectively, the 6-Month Extended Term and the 12-Month Extended Term
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 6 January 2023, at 3:00 p.m., for the Independent Shareholders to consider and, if appropriate, to approve the resolution contained in the notice of the meeting which is set out on pages 52 to 53 of this circular, or any adjournment thereof
“Gas Products Supply Agreement”	the gas products supply agreement entered into by TTG and Tangshan Plate on 29 June 2022
“Group”	the Company and its subsidiaries

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“HBIS”	HBIS Group Co., Ltd.* (河鋼集團有限公司), a joint stock limited company established under the laws of the PRC with limited liability, a wholly-owned subsidiary of Hebei Province SASAC and one of the Controlling Shareholders
“HBIS Chengsteel”	Chengde Iron and Steel Group Co., Ltd.* (承德鋼鐵集團有限公司), a company established under the laws of the PRC with limited liability on 1 July 1980 and a wholly-owned subsidiary of HBIS
“HBIS Company”	HBIS Company Limited* (河鋼股份有限公司), a joint stock limited company established under the laws of the PRC with limited liability and listed on the Shenzhen Stock Exchange (stock code: 000709), a subsidiary of HBIS, and one of the Controlling Shareholders
“HBIS Group”	HBIS and its subsidiaries and their respective associates, but excluding the Group
“HBIS Hangsteel”	Handan Iron and Steel Group Co., Ltd.* (邯鄲鋼鐵集團有限責任公司), a company established under the laws of the PRC with limited liability on 28 December 1995, and a wholly-owned subsidiary of HBIS
“HBIS Tangsteel”	Tangshan Iron and Steel Group Co., Ltd.* (唐山鋼鐵集團有限責任公司), a company established under the laws of the PRC with limited liability on 28 December 1995 and a subsidiary of HBIS
“Hebei Province SASAC”	the State-owned Assets Supervision and Administration Commission of The People’s Government of Hebei Province* (河北省人民政府國有資產監督管理委員會)
“HK Huitang Zhihe”	Huitang Zhihe (Hong Kong) Co., Limited (惠唐鄧和(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 26 November 2019, and a wholly-owned subsidiary of SH Huitang Zhihe and one of the Controlling Shareholders
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company established by all the independent non-executive Directors to advise the Independent Shareholders on the terms of the Gas Products Supply Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder and for the purpose of Rule 14A.52 of the Listing Rules in relation to the duration of the Gas Products Supply Agreement
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the Extraordinary General Meeting to approve the Gas Products Supply Agreement and the transactions contemplated thereunder
“Initial Term”	42 months, commencing from the date when the Production Unit is put into operation
“Jing-Jin-Ji Region”	the national capital region of China and the biggest urbanised region in northern China which includes an economic region surrounding Beijing (Jing), Tianjin (Jin) and Hebei province (Ji)
“Latest Practicable Date”	14 December 2022, 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 as amended from time to time
“Master Gas Products and Related Services Agreement”	the gas products supply and related services framework agreement entered into by the Company and HBIS on 17 June 2020, pursuant to which the Company agreed to supply gas products (including pipeline and liquefied industrial gas and other gas products as agreed by the Company and members of the HBIS Group from time to time) and provide related services (including provision of gas transmission and storage tanks rental services) to members of the HBIS Group mainly for their production of iron and steel products for a term commencing from the 29 December 2020 (the listing date) and ending on 31 December 2022 the details of which were disclosed in the Prospectus and its proposed renewal

DEFINITIONS

“Master Utilities and Related Services Agreement”	the utilities and related services framework agreement entered into by the Company and HBIS on 17 June 2020, pursuant to which the Company agreed to procure from members of the HBIS Group utilities including, among others, water, electricity, steam and COG, related equipment (including electrical cabinet and cables) and services (including sewage treatment services) for a term commencing from the 29 December 2020 (the listing date) and ending on 31 December 2022, the details of which were disclosed in the Prospectus and its proposed renewal
“m ³ ”	Cubic meter
“Nm ³ ”	Normal Cubic Meter. Unit used to measure volume of gas in standard pressure and temperature
“Nm ³ /hr”	Normal Cubic Meter per hour. Unit used to measure gas flow rate
“Project”	the project for the construction and operations of the Production Unit and the supply of gas products by TTG to Tangshan Plate, the details of which are set out in the section headed “Material terms of the Gas Products Supply Agreement” in the letter from the Board as set out in this circular
“PRC”	the People’s Republic of China and for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Production Unit”	a vacuum pressure swing adsorption oxygen generation unit (真空變壓吸附制氧裝置) and ancillary facilities
“Prospectus”	the prospectus of the Company dated 16 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented and modified from time to time
“SH Huitang Zhihe”	Shanghai Huitang Zhihe Investment Co., Ltd. (上海惠唐鄧和投資有限公司), a company established under the laws of the PRC with limited liability on 2 December 2014 and is wholly owned by HBIS Company, and one of the Controlling Shareholders

DEFINITIONS

“Share(s)”	ordinary share(s) of US\$0.0001 each in the issued capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Tangshan Plate”	Tangshan Plate Material Company Limited* (唐山中厚板材有限公司), a company established under the laws of the PRC with limited liability and a non-wholly owned subsidiary of HBIS Company
“Term”	the term of the Gas Products Supply Agreement, which includes the Initial Term and the Extended Terms (as applicable)
“Transfer”	the transfer of the ownership of the Production Unit from TTG to Tangshan Plate upon the expiry or termination of the Gas Products Supply Agreement
“TTG”	Tangshan Tangsteel Gases Co., Ltd.* (唐山唐鋼氣體有限公司), a company established under the laws of the PRC with limited liability, and a wholly-owned subsidiary of the Company
“US\$”	the US dollars, the lawful currency of the United States
“Utilities”	the utilities for the operations of the Production Unit, including, among others, water, electricity and steam
“6-Month Extended Term”	has the meaning ascribed in the section headed “Material terms of the Gas Products Supply Agreement — Term” in the letter from the Board as set out in this circular
“12-Month Extended Term”	has the meaning ascribed in the section headed “Material terms of the Gas Products Supply Agreement — Term” in the letter from the Board as set out in this circular

LETTER FROM THE BOARD

CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

(Incorporated in the Cayman Islands with members' limited liability)

(Stock code: 1940)

Executive Directors:

Mr. Yao Li (*Chairman*)

Ms. Gao Guimin

Non-executive Directors:

Mr. Zhang Aimin

Mr. Lai Yui

Ms. Ng Shuk Ming

Independent Non-executive Directors:

Mr. Siu Chi Hung

Mr. Xiao Huan Wei

Ms. Li Chun Elsy

Registered Office:

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Principal Place of Business and
Head Office in the PRC:*

No. 9 Binhe Road, Lubei District

Tangshan, Hebei Province

PRC

*Principal Place of Business in
Hong Kong:*

Unit 2910, 29/F., Bank of America Tower

12 Harcourt Road, Hong Kong

16 December 2022

To the Shareholders

Dear Sir/Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
GAS PRODUCTS SUPPLY AGREEMENT;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement.

On 29 June 2022 (after trading hours), TTG and Tangshan Plate entered into the Gas Products Supply Agreement, pursuant to which (i) TTG shall invest in the construction of the Production Unit; (ii) TTG shall operate the Production Unit during the Term; (iii) Tangshan Plate shall provide the construction site for the Project; (iv) Tangshan Plate shall provide the Utilities for the operation of the Production Unit during the Term and TTG shall pay the Utilities expenses pursuant to the

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2018 Operational Utilities and Related Services Agreement; (v) Tangshan Plate shall purchase the gas products produced by TTG at the Production Unit during the Term; and (vi) upon expiry or termination of the Gas Products Supply Agreement, TTG shall transfer the ownership of the Production Unit to Tangshan Plate.

The purposes of this circular are to provide you with, among other things, (i) further information on the Gas Products Supply Agreement and the transactions contemplated thereunder; (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the recommendation and opinion of the Independent Board Committee after having considered the advice of the Independent Financial Adviser in relation to the Gas Products Supply Agreement and the transactions contemplated thereunder; (iii) other information as required under the Listing Rules; and (iv) notice of the Extraordinary General Meeting.

MATERIALS TERMS OF THE GAS PRODUCTS SUPPLY AGREEMENT

Date

29 June 2022

Parties

- (a) TTG; and
- (b) Tangshan Plate

Construction

Pursuant to the Gas Products Supply Agreement, TTG agreed to invest in the construction of the Production Unit in the amount of RMB82.9 million (including costs of construction and installation of approximately RMB24.9 million and costs of equipment and materials of approximately RMB58 million). The investment amount of approximately RMB82.9 million on the construction of the Production Unit was based on the quotations obtained from independent third parties through the tendering processes. Contractors will be engaged by TTG for the construction and installation of the Production Unit. The Production Unit will be used for production of gas product exclusively for Tangshan Plate after completion of the construction. The operation of the Production Unit is based on the Tangshan Plate's production needs. Therefore, Tangshan Plate is obligated to purchase all the gas products produced by TTG at the Production Unit during the Term.

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Operations

Upon completion of the construction of the Production Unit, TTG shall operate the Production Unit to produce oxygen (80% purity) and Tangshan Plate shall provide the Utilities for the operations of the Production Unit during the Term.

(a) Production and supply of gas products

The oxygen to be produced by the Production Unit is similar to the gas products normally produced by the Company in the ordinary course of business except for the difference in purity and pressure.

Tangshan Plate shall purchase the gas products produced by TTG at the Production Unit at RMB0.4266 per m³. Tangshan Plate shall pay TTG the purchase amount on a monthly basis during the Term.

The purchase price of RMB0.4266 per m³ was determined based on the cost of the Project (including the investment amount and the operation cost), taking into account the transfer of the Product Unit and the Terms, and with reference to (among others) the historical price of gas products supplied to Tangshan Plate.

The Utilities and related expenses of the Project for production of the gas product is estimated to be RMB0.2132 per m³, among which, the electricity expense for producing the oxygen is estimated to be RMB0.1742 per m³. The gross profit of the Project is expected to be RMB0.2134 per m³.

As at the Latest Practicable Date, the current selling price under the existing operational gas products and related services agreement (the “**2018 Operational Gas Products and Related Services Agreement**”) entered into on 13 June 2018 between TTG and Tangshan Plate was RMB 0.4266 per m³, the utilities and related expenses for production of the gas products were RMB 0.393 per m³, among which, the electricity expense for the production of oxygen is RMB0.32 per m³. The gross profit of the current agreement is RMB0.0336 per m³. As the Production Unit which uses pressure swing adsorption technology to produce oxygen could reduce the electricity consumption, the utilities and related expenses of the Project are lower than those under the 2018 Operational Gas Products and Related Services Agreement while the gross profit per m³ is higher than that under the 2018 Operational Gas Products and Related Services Agreement.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that it is fair and reasonable to set the selling price of the gas products payable by Tangshan Plate under the Project at RMB0.4266 per m³ as the transactions thereunder offer higher profits to TTG and enable TTG to recover the investment amount during the Term.

(b) Procurement of Utilities

Tangshan Plate shall provide the Utilities for the operations of the Production Unit during the Term and TTG shall pay the Utilities expenses in accordance with the 2018 Operational Utilities and Related Services Agreement, which is subject to the Master Utilities and Related Services Agreement.

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Principal terms of the 2018 Operational Utilities and Related Services Agreement

Pursuant to the 2018 Operational Utilities and Related Services Agreement entered into between Tangshan Plate and TTG on 13 June 2018 with a term of 15 years, TTG agreed to procure from Tangshan Plate i) electricity at RMB0.52/kWh (exclusive of tax); ii) water at RMB4.21 per tonne (exclusive of tax); iii) heating at price not more than the price at which Tangshan Plate supplies to other workshops within its factory price (exclusive of tax); (iv) steam at RMB80 per tonne (exclusive of tax). The Utilities fees are payable on a monthly basis based on the actual volume of relevant Utilities procured by TTG.

Where Tangshan Plate is in breach of their contractual obligations, such as failure to supply Utilities to TTG at the agreed level which is determined based on TTG's production needs or specifications, it will be liable to compensate TTG for resulting economic losses. Either party may terminate the agreement prior to the expiry date by mutual agreement or if either party is insolvent or breaches material terms of the agreement without rectification on notice.

Pricing guidelines

The price of the relevant Utilities, in accordance with the pricing guideline under the Master Utilities and Related Services Agreement, shall be determined with reference to the following principles in ascending order:

- (i) government-prescribed price: if at any time, the government-prescribed price is applicable to any particular type of the Utilities, such type of Utilities shall be provided at the applicable government-prescribed price, whether national or local, such as the electricity price prescribed by the Development and Reform Commission of Hebei Province and water price prescribed by the Development and Reform Commission of Tangshan;
- (ii) government-guided price: if at any time, the government-guided price is applicable to any particular type of the Utilities, such type of Utilities shall be provided within the range of such government-guided price, whether national or local;
- (iii) tendering process (where applicable): where the above two price standards are not available for a particular type of the Utilities and any of the Utilities is subject to tendering process in accordance with the relevant internal policies and procedures of members of our Group, the price of such type of the Utilities shall be determined by tendering process in accordance with the relevant internal policies and procedures of members of our Group; and
- (iv) market price: where the above price standards are not available for a particular type of the Utilities, the price of such type of Utilities shall be determined with reference to the market price. In determining the market price, both parties shall take into consideration the following key factors:
 - (a) the prevailing market prices charged by independent third parties for providing the same or similar type of Utilities in the region where the type of the Utilities is provided by relevant members of the HBIS Group;

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- (b) the prices charged by relevant members of the HBIS Group for providing the same or similar type of Utilities to the independent third parties; and
- (c) the prices charged by relevant members of the HBIS Group for providing the same or similar type of Utilities to other members of the HBIS Group.

Further, according to the 2018 Operational Utilities and Related Services Agreement, the Utilities prices are subject to annual review in principle at the beginning of each year based on mutual agreement, in particular, if there is any adjustment to the electricity price at Tangshan area, Tangshan Plate shall supply electricity to TTG at cost at which it procures the same on grid at Tangshan area.

Utilities fees

The amount of Utilities expenses to be incurred by TTG under the Gas Products Supply Agreement is estimated based on the unit price of the relevant Utilities and the amount of the Utilities expected to be procured by TTG in production of such volume of industrial gases for the aggregated amount of purchase as set out in the Gas Products Supply Agreement. In respect of the unit price of the relevant Utilities, please refer to the sub-sections headed “Principal terms of the 2018 Operational Utilities and Related Services Agreement” and “Pricing guidelines” in this section above. In respect of the aggregated amount of purchase of industrial gases, please refer to section headed “Termination” below.

The gas production process involved in our business is electricity-intensive and consumes Utilities, which mainly include electricity, water and steam. The largest component of the production cost, i.e. the electricity price for gas product supply of the Project, which is expected to represent approximately 81.7% of the production cost, is RMB0.52/kWh (exclusive of tax) under the 2018 Operational Utilities and Related Services Agreement. The electricity price has not been adjusted since the 2018 Operational Utilities and Related Services Agreement signed on 13 June 2018.

As at the Latest Practicable Date, the electricity price is RMB0.52/kWh (exclusive of tax). While TTG may experience increased electricity prices, the Gas Products Supply Agreement allows TTG to make corresponding adjustments to the selling prices of the pipeline industrial gas by taking into account the fluctuations in electricity prices. As such, the Company expects that the amount of Utilities expenses would not have any material impact on the Company’s assessment on the fairness and reasonableness of the aggregate purchase price (after netting off the Utilities expenses).

The supply of gas products by the Company to Tangshan Plate under the Project pursuant to the Gas Products Supply Agreement, is subject to the terms and conditions of the Master Gas Products and Related Services Agreement, independent from the 2018 Operational Gas Products and Related Services Agreement. The information related to the 2018 Operational Gas Products and Related Services Agreement set out above is for reference and comparison only. For further details of the terms of the Master Gas Products and Related Services Agreement, please refer to the Prospectus and the circular of the Company dated 12 December 2022 in relation to, among other thing, the renewal of continuing connected transactions.

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The procurement of Utilities by the Company from Tangshan Plate under the Project will be conducted in accordance with the terms of the 2018 Operational Utilities and Related Services Agreement, which is subject to the terms and conditions of the Master Utilities and Related Services Agreement. For further details of the terms of the Master Utilities and Related Services Agreement, please refer to the Prospectus and the circular of the Company dated 12 December 2022 in relation to, among other thing, the renewal of continuing connected transactions.

Transfer

Upon expiry or termination of the Gas Products Supply Agreement, the ownership of the Production Unit shall be transferred from TTG to Tangshan Plate at nil consideration, and Tangshan Plate is obligated to obtain the ownership of the Production Unit, provided that TTG is fully compensated by Tangshan Plate for all the cost and loss (if any) incurred by TTG in connection with the investment and construction of the Project.

The Transfer forms part of the transactions contemplated under the Gas Products Supply Agreement. In negotiation of the nil consideration for the Transfer, the Gas Products Supply Agreement, TTG and Tangshan Plate agreed to set nil consideration for transferring the ownership of the Production Unit as the basis, the total construction costs and the value of the Production Unit at the termination or expiry of the Gas Products Supply Agreement have been taken into account in negotiation of the overall arrangement and is expected to be covered by the revenue to be received by the Group in provision of the gas products to Tangshan Plate under the Gas Products Supply Agreement upon the end of the Initial Terms. In addition, based on the estimated gas supply capacity of 21,600 m³ per hour and annual production time of 7,884 hours per year, the maximum gas production volume per year is estimated to be 170,294,400 m³. As the average annual return on investment for the transactions contemplated under the Gas Products Supply Agreement for the (1) Initial Term of 42 month; and (2) Initial Term and 12-Month Extended Term of 54 months are calculated as approximately 19.33%^{Note 1} and 15.03%^{Note 2}, respectively, which are higher than the Group's borrowing interest rate of 5.21%, the Board considers that the nil transfer price is fair and reasonable and on normal commercial terms.

Notes:

- 1) The average annual return of the Initial Term of 19.33% = (net profit: RMB124.4 million - net construction cost: RMB74.2 million) ÷ net construction cost: RMB74.2 million × (12 months ÷ Initial Term: 42 months).
- 2) The average annual return of the Initial Term and 12-Month Extended Term of 15.03% = (net profit: RMB124.4 million - net construction cost: RMB74.2 million) ÷ net construction cost: RMB74.2 million × (12 months ÷ Initial Term and 12-Month Extended Term: 54 months).

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Term

The Gas Products Supply Agreement has an Initial Term of 42 months commencing from the date when the Production Unit is put into operation. It is currently expected that the Production Unit will be put into operation not more than three months from the commencement of construction of the Production Unit. The Initial Term may be further extended for (i) not more than six months in the event that the actual operating hours of the Production Unit is affected by the production restrictions imposed by the PRC government (the “**6-Month Extended Term**”); and (ii) not more than twelve months in the event that the Production Unit fails to operate due to reasons of TTG (the “**12-Month Extended Term**”).

As the Term exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, Rainbow Capital has been appointed as the Independent Financial Adviser to explain the reason for the longer period of the Gas Products Supply Agreement and to confirm that it is the normal business practice for agreements of this type to be of such duration. Please refer to the section headed “Opinion From the Independent Financial Adviser” below in the letter from the Board as set out in this circular for further details.

Condition

The Gas Products Supply Agreement is conditional on the Independent Shareholders having approved the Gas Products Supply Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting as required by the Listing Rules.

Termination

The Gas Products Supply Agreement shall be terminated upon the occurrence of the following events:

- (i) the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement, power supply circuit, labour and maintenance costs and excluding tax) reaches RMB124,355,400 by the end of the Initial Term or the Extended Terms; or
- (ii) the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement, power supply circuit, labour and maintenance costs and excluding tax) reaches RMB124,355,400 within the Initial Term.

During the Term, the aggregate amount of purchase to be made by Tangshan Plate before netting off certain operating expenses including the Utilities expenses and power supply circuit, labour and maintenance costs and excluding tax is expected to be RMB248,594,000. The aggregate amount of purchase is arrived at as follows: $\text{RMB124,355,400} \times \text{RMB0.4266 per m}^3 \text{ (purchase price)} \div \text{RMB0.2134 (sharing profit)} = \text{RMB248,594,000}$. The Directors (including the independent non-executive Directors) are of the view that the aggregate amount of purchase is fair and reasonable and in the interest of the Company and the shareholders as a whole. Upon termination of the Gas

LETTER FROM THE BOARD

Products Supply Agreement, the Company is expected to receive the aggregate amount of purchase of RMB124,355,400 (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement, power supply circuit, labour and maintenance costs and excluding tax), which is expected to cover the construction costs of the Production Unit of approximately RMB82.9 million.

If the Gas Products Supply Agreement is terminated before the occurrence of the above-mentioned events as a result of TTG not being able to use the construction site or the Project is terminated for any reasons other than the default of TTG, Tangshan Plate shall compensate the resulting actual losses incurred by TTG. Where the Gas Products Supply Agreement could no longer be performed due to the afore-mentioned reasons, TTG has the right to terminate the Gas Products Supply Agreement and Tangshan Plate shall compensate all expenses and losses incurred by TTG in performing the Gas Products Supply Agreement.

If TTG intends to continue the operations of the Production Unit upon termination of the Gas Products Supply Agreement, the cooperation arrangement will be subject to further negotiation by the parties and shall not be subject to the terms and conditions of the Gas Products Supply Agreement. Any further negotiation and cooperation arrangement will be subject to the disclosure and compliance requirements under the Listing Rules.

Other material terms

In the event that the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement and power supply circuit, labour and maintenance costs and excluding tax) is less than RMB124,355,400 by the end of:

- (i) the Initial Term or,
- (ii) the 6-Month Extended Term in the event that the actual operating hours of the Production Unit is affected by production restrictions imposed by the PRC government, or
- (iii) the 12-Month Extended Term in the event that the Production Unit fails to operate due to reasons of TTG,

Tangshan Plate shall compensate the shortfall between RMB124,355,400 and the aggregate amount of purchase (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement and power supply circuit, labour and maintenance costs and excluding tax) made by Tangshan Plate to TTG.

The Company will closely monitor the construction costs, operations of the Production Unit and the Transfer during the term of the Project. If there are any material changes to the arrangements under the Gas Products Supply Agreement as disclosed in this circular, the Company will publish announcement and re-comply with the Listing Rules as and when necessary.

LETTER FROM THE BOARD

Annual caps

The annual caps for the supply of gas products by the Company to Tangshan Plate and procurement of Utilities by the Company from Tangshan Plate under the Project pursuant to the Gas Products Supply Agreement will be covered by and calculated towards the annual caps for the Master Gas Products and Related Services Agreement and Master Utilities and Related Services Agreement, respectively.

Upon expiration of the Master Gas Products and Related Services Agreement and Master Utilities and Related Services Agreement and the annual caps thereunder and in the event that the approval from the independent Shareholders for their respective renewal or new annual caps is not granted, the Company will re-comply with the relevant Listing Rules or apply for waivers in respect of each of the operational gas products and related services agreements and operational utilities and related services agreements, where applicable, which will include the Gas Products Supply Agreement and the 2018 Operational Utilities and Related Services Agreement and their respective annual caps for the supply of gas products and procurement of Utilities thereunder.

REASONS FOR AND BENEFITS OF ENTERING INTO THE GAS PRODUCTS SUPPLY AGREEMENT

Currently, TTG is the exclusive pipeline industrial gas supplier for Tangshan Plate. The current average oxygen consumption by Tangshan Plate is approximately 78,000 Nm³/hr while the oxygen production capacity of the relevant branch of TTG is approximately 68,000 Nm³/hr. TTG has been purchasing liquefied oxygen from third parties to supplement the shortfall of its supply of oxygen to Tangshan Plate, resulting in increased costs for TTG. The Group understands that Tangshan Plate's demand for oxygen is expected to further increase by approximately 30% for the coming year according to its production plan. In light of the above, Tangshan Plate and TTG decided to cooperate in implementing the Project to tackle the oxygen supply shortage.

The Production Unit which uses pressure swing adsorption technology to produce oxygen could reduce the electricity consumption, which is the largest cost component in the gas production process, by approximately 25% as compared to other deep cooling oxygen generation units. Further, the Production Unit would be installed in proximity to the furnace blower, enabling the oxygen produced to flow into the furnace through the blower without using the oxygen compressor. Therefore, the Project also allows the Group to benefit from reduced energy consumption and production cost. Moreover, the average annual return on investment for the transactions contemplated under the Gas Products Supply Agreement for the (1) Initial Term of 42 month; and (2) Initial Term and 12-Month Extended Term of 54 months are calculated as approximately 19.33%^{Note 1} and 15.03%^{Note 1}, respectively, which are higher than the Group's borrowing interest rate of 5.21%. Through the Project, the Company will gain experience in constructing and operating similar projects in the future, so as to further develop the pressure swing adsorption oxygen production technology, enhance the Company's technical resource reserves, expand the Company's business scope, and further enhance the Company's competitiveness in oxygen production.

Note:

- 1) For details of the calculations, please refer to the notes in the sub-section headed "Materials Terms of the Gas Products Supply Agreement - Transfer" in this circular.

LETTER FROM THE BOARD

INFORMATION OF THE PARTIES

Information on TTG

TTG is a company established under the laws of the PRC with limited liability, and a wholly-owned subsidiary of the Company. TTG is principally engaged in the production and sales of industrial gas (including pipeline industrial gas and liquefied industrial gas), with oxygen, nitrogen, argon, hydrogen and carbon dioxide being its main industrial gas products.

Information on the Group

The Group is principally engaged in the production and sales of industrial gas, and is a leading industrial gas supplier in the Jing-Jin-Ji Region in terms of revenue. The Group is the exclusive pipeline industrial gas supplier for a few members of the HBIS Group.

Information on Tangshan Plate

Tangshan Plate is a company established under the laws of the PRC with limited liability and a non-wholly owned subsidiary of HBIS Company. As at the Latest Practicable Date, Tangshan Plate is held as to approximately 51.0% by HBIS Company, 25.1% by Rong Fong Investment (Cambodia) Company Limited (柬埔寨榮豐投資有限公司) and 23.9% by Hebei Wenfeng Shiye Group Company Limited* (河北文豐實業集團有限公司), respectively. To the best understanding, knowledge and belief of the Directors having made all reasonable enquiries, except for HBIS Company, the other registered shareholders of Tangshan Plate are third parties independent of the Group and its connected persons. Tangshan Plate is principally engaged in the production and sales of middle and heavy steel plate.

Information on HBIS Group

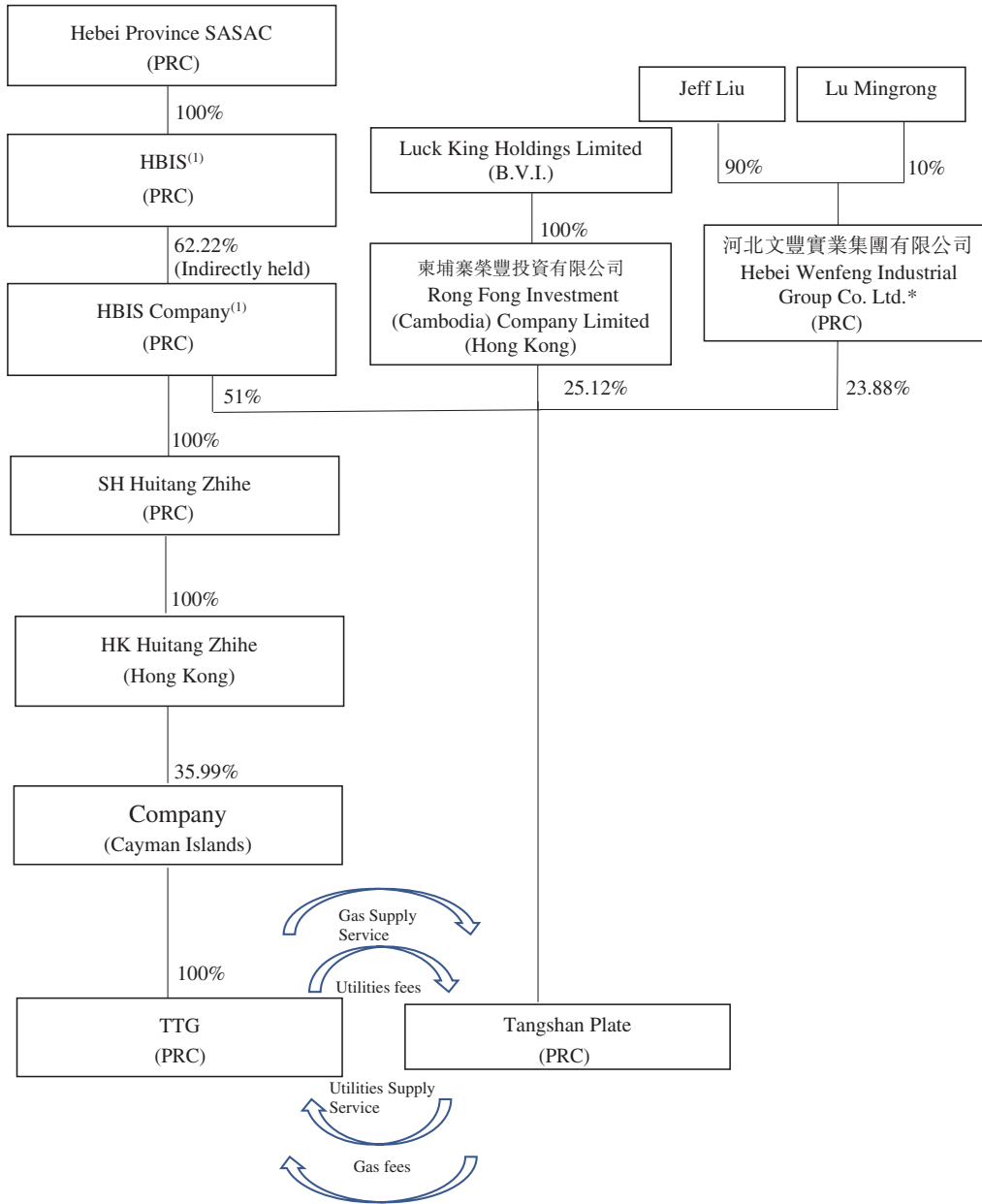
HBIS is a joint stock limited company established under the laws of the PRC with limited liability. As at the Latest Practicable Date, HBIS is an ultimate controlling shareholder of HBIS Company and one of the Controlling Shareholders of the Company, holding approximately 35.99% of the issued share capital of the Company through its subsidiaries and it is, in turn, wholly-owned by the Hebei Province SASAC.

The HBIS Group, comprising HBIS and its subsidiaries, is a State-owned iron and steel group in Hebei, the PRC. Companies under the HBIS Group primarily produce and sell iron and steel products which are used in various industries such as automobiles, petroleum, railways, bridges, construction, power, transportation, machinery, shipbuilding, light industry, home appliances, pipelines, warehousing, electrical and mechanical, canned products, welding, environmental protection, steel structure, chemical industry, water conservancy, and other applications.

HBIS Company, a joint stock company established under the laws of the PRC with limited liability, is one of the major operating subsidiaries of the HBIS Group and has been listed on the Shenzhen Stock Exchange since March 1997 (Stock Code: 000709). HBIS Company is one of the Controlling Shareholders of the Company, holding approximately 35.99% of the issued share capital of the Company through its wholly-owned subsidiaries.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE AND MONEY AND SERVICES FLOW OF THE PROJECT



Note:

- (1) HBIS Company is currently listed on the Shenzhen Stock Exchange (Stock Code: 000709). As at the Latest Practicable Date, HBIS Company was directly and indirectly owned by HBIS Chengsteel, HBIS Hansteel and HBIS Tangsteel as to approximately 4.17%, 39.73% and 18.32%, respectively, and HBIS Chengsteel, HBIS Hansteel and HBIS Tangsteel were owned by HBIS as to 100%, 100% and 92.99%, respectively. As such, as at the Latest Practicable Date, HBIS through its subsidiaries together indirectly held approximately 62.22% equity interest in HBIS Company.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save for HBIS and the members of the HBIS Group, the shareholders of the counterparties of the operational agreement and their ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE TRANSFER

Upon expiry or termination of the Gas Products Supply Agreement, TTG shall transfer the ownership of the Production Unit to Tangshan Plate at nil consideration. As at the Latest Practicable Date, the Production Unit has not yet been constructed. As such, no valuation of the Production Unit is available and there is no carrying value of the Production Unit recorded in the Company's book. The Directors consider that it is therefore not appropriate to predict the financial effect, including the gain or loss of the Transfer, prior to the completion of construction of the Production Unit.

Pursuant to the Gas Products Supply Agreement, the construction costs of the Production Unit are expected to be covered by the agreed aggregate amount of purchase to be made by Tangshan Plate and further, prior to the Transfer, TTG will be fully compensated by Tangshan Plate for all the loss (if any) incurred by TTG in connection with the investment and construction of the Project. Thus, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) are of the view that the Transfer will not have any material adverse impact on the business operations and financial position of the Group.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, HBIS Company is a Controlling Shareholder of the Company, indirectly holding approximately 35.99% of the issued share capital of the Company through its wholly-owned subsidiaries. Tangshan Plate is a non-wholly owned subsidiary of HBIS Company. As such, Tangshan Plate is an associate of HBIS Company and therefore a connected person of the Company. Therefore, the Transfer contemplated under the Gas Products Supply Agreement will constitute a discloseable and connected transaction of the Company under Chapter 14A and Chapter 14 of the Listing Rules (as the case may be).

As the highest applicable percentage ratio as defined under the Listing Rules in respect of the Transfer is more than 5% but less than 25%, the Transfer will constitute (i) a non-exempt connected transaction under Chapter 14A of the Listing Rules; and (ii) a discloseable transaction under Chapter 14 of the Listing Rules, and will be subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Board (including the independent non-executive Directors after taking into account the advice from the Independent Financial Adviser) are of the view that the Gas Products Supply Agreement was entered into in the ordinary and usual course of the Group's business on normal commercial terms and on an arm's length basis, and the terms of the Gas Products Supply Agreement, the transactions contemplated thereunder are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on, among other things, the terms of the Transaction and on how to vote on the resolution in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder at the Extraordinary General Meeting. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

To the best understanding, knowledge and belief of the Directors having made all reasonable enquiries, none of the Directors has a material interest in the Transaction. As Mr. Zhang Aimin, who is the chief accountant of HBIS Tangsteel, a subsidiary of HBIS and a shareholder of HBIS Company, holding approximately 17.45% interests in HBIS Company, he has abstained from voting at the Board meeting approving the entering into of the Gas Products Supply Agreement and the transactions contemplated thereunder.

OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

As the Term exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, Rainbow Capital has been appointed as the Independent Financial Adviser to explain the reason for the longer period of the Gas Products Supply Agreement and to confirm that it is normal business practice for agreements of this type to be of such duration. In assessing the reasons why the duration of the Gas Products Supply Agreement should be longer than three years, Rainbow Capital has considered the following factors based on the information provided by the management of the Group as well as the publicly available information:

- (i) TTG has commenced supply of pipeline industrial gas to Tangshan Plate since January 2015. Pursuant to a contract entered into between TTG and Tangshan Plate in June 2018 (the “Existing Tangshan Contract”), TTG agreed to supply pipeline industrial gas to Tangshan Plate for a term of 15 years from June 2018 to May 2033. The entering into of the Gas Products Supply Agreement with a longer duration allows TTG to bridge the gap between its existing production capacity and Tangshan Plate’s increasing demand for pipeline industrial gas. According to Frost & Sullivan, the market size of industrial gas industry in terms of revenue generated from the iron and steel industry in the PRC is expected to grow at a compound annual growth rate of approximately 7.9% between 2019 and 2024; and
- (ii) Tangshan Plate, a non-wholly owned subsidiary of HBIS Company, is a member of the HBIS Group which is the largest state-owned iron and steel group in Hebei Province and the Group’s largest customer. The Group has been exclusively supplying industrial gas to some members of the HBIS Group since TTG was initially set up as a joint venture by HBIS Company and the Company in 2007. Given the long- and well-established business relationship between the Group and the HBIS Group, a longer duration of the Gas Products Supply Agreement will provide stability to TTG’s supply of industrial gas products to Tangshan Plate and will be beneficial to the Group’s long-term cooperation with the HBIS Group.

LETTER FROM THE BOARD

In considering whether it is normal business practice for contracts of a similar nature to the Gas Products Supply Agreement to have a term of such duration, Rainbow Capital has:

- (i) referred to the durations of the five existing industrial gas supply agreements (the “**Existing Agreements**”) entered into between the Group and members of the HBIS Group (including the Existing Tangshan Contract) for the provision of industrial gas products and related services. Rainbow Capital notes that the duration of the Gas Products Supply Agreement, up to 54 months if extended, falls in the range of the durations of the Existing Agreements of two to 30 years; and
- (ii) reviewed the principal terms of comparable transactions (the “**Comparable Transactions**”) involving provision of industrial gas products up to the date of this circular. The Comparable Transactions have been selected by Rainbow Capital based on the following criteria: (a) the supplier (or its direct or indirect holding companies) to each of such transactions is listed or a listing applicant in Hong Kong or the PRC, and is principally engaged in the provision of industrial gas products; and (b) the principal terms of such transactions have been publicly disclosed in the prospectuses or announcements of the relevant suppliers. Rainbow Capital notes that the duration of the Gas Products Supply Agreement, up to 54 months if extended, falls in the range of the duration of the Comparable Transactions of eight months to 20 years.

Based on the above considerations, Rainbow Capital is of the opinion that (i) a term of longer than three years is required for the Gas Products Supply Agreement; and (ii) it is normal business practice of contracts of this type to be of such duration.

The Company has also appointed Rainbow Capital as the Independent Financial Adviser to the Company for providing advice to the Independent Board Committee and the Independent Shareholders to confirm that it is normal business practice for agreements of this type to be of such duration, and whether the terms of the Gas Products Supply Agreement and the transactions contemplated thereunder are fair and reasonable, and whether they are in the interest of the Company and the Shareholders as a whole.

A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 45 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders indicates that the Independent Financial Adviser considers the Gas Products Supply Agreement was entered into in the ordinary and usual course of the Group’s business on normal commercial terms and on an arm’s length basis, the Term is normal business practice for agreements of this type to be of such duration, and the terms of the Gas Products Supply Agreement, the transactions contemplated thereunder are fair and reasonable, and they are in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTION

As at the Latest Practicable Date, HBIS Company is a Controlling Shareholder of the Company, indirectly holding approximately 35.99% of the issued share capital of the Company. Tangshan Plate is a non-wholly owned subsidiary of HBIS Company. As such, Tangshan Plate is an associate of HBIS Company and therefore a connected person of the Company.

As at the Latest Practicable Date, HK Huitang Zhihe directly holds approximately 35.99% of the total issued share capital of the Company and is wholly-owned by SH Huitang Zhihe which in turn is wholly-owned by HBIS Company. As HBIS Company is the parent company of Tangshan Plate, HK Huitang Zhihe was deemed to have interests in the Gas Products Supply Agreement contemplated thereunder, and HK Huitang Zhihe and its close associate(s) would be required to abstain from voting at the Extraordinary General Meeting. Save as disclosed above, to the best of the Directors' knowledge, information and belief, no other Shareholders are required to abstain from voting on the relevant resolution at the Extraordinary General Meeting.

EXTRAORDINARY GENERAL MEETING

Set out on pages 52 to 53 of this circular is a notice convening the Extraordinary General Meeting to be held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 6 January 2023, at 3:00 p.m., at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Gas Products Supply Agreement and the transactions contemplated thereunder. The voting at the Extraordinary General Meeting will be taken by poll. Announcement on the poll results will be published by the Company after the Extraordinary General Meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.cgiiholdings.com>). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the Extraordinary General Meeting (i.e. not later than 3:00 p.m., on Wednesday, 4 January 2023 (Hong Kong time)) or the adjourned meeting (as the case may be). Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting at the Extraordinary General Meeting if they so wish.

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from the Independent Financial Adviser as set out on pages 24 to 25 and pages 26 to 45, respectively, of this circular.

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the Extraordinary General Meeting.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the Gas Products Supply Agreement was entered into in the ordinary and usual course of the Group's business on normal commercial terms and on an arm's length basis, and the terms of the Gas Products Supply Agreement, the transactions contemplated thereunder are fair and reasonable and in the interest of the Group and the Shareholders as a whole. The Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting to approve the Gas Products Supply Agreement, the transactions contemplated thereunder. You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser mentioned above before deciding how to vote on the resolution to be proposed at the Extraordinary General Meeting.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to their voting on the resolution in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder.

CLOSURE OF REGISTER OF MEMBERS

The share register of the Company will be closed from Tuesday, 3 January 2023 to Friday, 6 January 2023 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend the Extraordinary General Meeting and vote at the meeting, all completed share transfer forms accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Friday, 30 December 2022.

FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,

Yao Li

Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

(Incorporated in the Cayman Islands with members' limited liability)

(Stock code: 1940)

16 December 2022

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
GAS PRODUCTS SUPPLY AGREEMENT**

We refer to the circular of the Company dated 16 December 2022 (“**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Gas Products Supply Agreement contemplated. Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same respect.

We wish to draw your attention to the letter from the Board set out on pages 8 to 23 of the Circular which contains, among others, information in connection with the Gas Products Supply Agreement, as well as the letter from the Independent Financial Adviser set out on pages 26 to 45 of the Circular which contains its advice and recommendation in the same respect.

Having taken into account the advice and recommendation of the Independent Financial Adviser and the principal factors and reasons considered by the Independent Financial Adviser, we consider that the Gas Products Supply Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms and on an arm’s length basis, and the terms of the Gas Products Supply Agreement, the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Gas Products Supply Agreement, the transactions contemplated thereunder.

Yours faithfully
For and on behalf of

**Independent Board Committee of
CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.**

Siu Chi Hung
Independent
non-executive Director

Xiao Huan Wei
Independent
non-executive Director

Li Chun Elsy
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.



RAINBOW CAPITAL (HK) LIMITED
滙博資本有限公司

16 December 2022

To the Independent Board Committee and the Independent Shareholders

CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.
Unit 10, 29th Floor, Bank of America Tower
No.12, Harcourt Road
Hong Kong

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO GAS PRODUCTS SUPPLY AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 16 December 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 29 June 2022 (after trading hours), TTG, a wholly-owned subsidiary of the Company, and Tangshan Plate entered into the Gas Products Supply Agreement, pursuant to which (i) TTG shall invest in the construction of the Production Unit; (ii) TTG shall operate the Production Unit to produce oxygen during the Term; (iii) Tangshan Plate shall provide the construction site for the Project; (iv) Tangshan Plate shall provide the Utilities for the operation of the Production Unit during the Term and TTG shall pay the Utilities expenses pursuant to the Operational Utilities and Related Services Agreement; (v) Tangshan Plate shall purchase the gas products produced by TTG at the Production Unit during the Term; and (vi) upon expiry or termination of the Gas Products Supply Agreement, TTG shall transfer the ownership of the Production Unit to Tangshan Plate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, HBIS Company is a Controlling Shareholder indirectly holding approximately 35.99% of the issued share capital of the Company and Tangshan Plate is a non-wholly owned subsidiary of HBIS Company. As such, Tangshan Plate is an associate of HBIS Company and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Transfer contemplated under the Gas Products Supply Agreement will constitute a connected transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio as defined under the Listing Rules in respect of the Transfer is more than 5% but less than 25%, the Transfer will constitute (i) a non-exempt connected transaction under Chapter 14A of the Listing Rules; and (ii) a discloseable transaction under Chapter 14 of the Listing Rules, and will be subject to the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder by way of a poll at the Extraordinary General Meeting. In view of the interest above, HK Huitang Zhihe, as an associate of HBIS Company, and its close associates will be required to abstain from voting at the Extraordinary General Meeting.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Siu Chi Hung, Mr. Xiao Huan Wei and Ms. Li Chun Elsy, has been formed to advise the Independent Shareholders on whether (i) the Gas Products Supply Agreement was entered into in the ordinary and usual course of the Group's business; (ii) the Gas Products Supply Agreement was on normal commercial terms or better after arm's length negotiation; and (iii) the terms of the Gas Products Supply Agreement, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, Rainbow Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Tangshan Plate that could reasonably be regarded as relevant to our independence. We have been engaged to act as the independent financial adviser to the Company for the purpose of Rule 14A.52 of the Listing Rules in relation to the term of the Gas Products Supply Agreement which exceeds three years, details of which are set out in the Announcement. Other than that, there was no engagement between the Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or Tangshan Plate. Accordingly, we are qualified to give independent advice in respect of the Gas Products Supply Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the fairness and reasonableness of the terms of the Gas Products Supply Agreement, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in the production and sales of industrial gas and is a leading industrial gas supplier in the Jing-Jin-Ji Region in terms of revenue. The Group is the exclusive pipeline industrial gas supplier for a few members of the HBIS Group.

TTG is a company established under the laws of the PRC and a wholly-owned subsidiary of the Company. TTG is principally engaged in the production and sales of industrial gas (including pipeline industrial gas and liquefied industrial gas), with oxygen, nitrogen, argon, hydrogen and carbon dioxide being its main industrial gas products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is an extract of the consolidated financial information of the Group for the years ended 31 December 2020 and 2021 (“FY2020” and “FY2021”, respectively) and the six months ended 30 June 2021 and 2022 (“6M2021” and “6M2022”, respectively) as extracted from the annual report of the Company for FY2021 (the “2021 Annual Report”) and the interim report for 6M2022, respectively:

(i) *Financial performance*

	For the year ended 31 December		For the six months ended 30 June	
	2021	2020	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	1,209,271	1,186,824	636,435	590,363
Cost of sales	(961,132)	(917,809)	(492,988)	478,687
Gross profit	248,139	269,015	143,446	111,676
Selling and marketing expenses	(1,867)	(1,357)	(949)	(903)
Administrative expenses	(95,556)	(53,965)	(39,865)	(35,816)
Credit loss allowance for loan receivables	—	(118,000)	(3,461)	—
Credit loss allowance for note investment	(66,400)	—	—	(66,400)
Research and development expenses	(51,503)	(50,073)	(33,644)	(17,806)
Other income	10,818	1,791	469	9,904
Other gains/(losses), net	(1,465)	(20,997)	8,657	(7,477)
Operating profit/(loss)	42,166	26,414	74,654	(6,822)
Finance costs, net	(28,048)	(22,726)	(13,026)	(13,549)
Profit/(loss) before income tax	14,118	3,688	61,627	(20,371)
Income tax expense	(40,935)	(31,385)	(19,997)	(19,211)
Profit/(Loss) for the year/period attributable to owners of the Company	(26,817)	(27,697)	41,631	(39,582)

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Revenue of the Group were stable at approximately RMB1,209.3 million for FY2021 as compared to approximately RMB1,186.8 million for FY2020. However, gross profit decreased from approximately RMB269.0 million for FY2020 to approximately RMB248.1 million for FY2021, representing a decrease of approximately 7.8%. Such decrease was mainly because the newly built plant and equipment of the Group were in the commissioning stage during the year, which incurred higher costs. Accordingly, gross profit margin decreased from approximately 22.7% for FY2020 to approximately 20.5% for FY2021. For FY2021, the gross profit margin for the supply of pipeline industrial gas segment, supply of liquefied industrial gas segment and the supply of LNG and gas transmission service segment were approximately 13.8%, 60.9% and 3.0%, respectively.

During FY2021, the Group recorded a significant increase in administrative expenses from approximately RMB54.01 million for FY2020 to approximately RMB95.6 million for FY2021, which was mainly due to the increase in expenses relating to an independent investigation conducted by the Company on unauthorised transactions entered into by an ex-Director from December 2020 to February 2021. Such unauthorised transactions included the entering into of three loan agreements (the “**Loan Agreements**”) in the aggregate principal amount of RMB118,000,000 which were repayable on 30 December 2020, and an investment agreement in respect of HK\$80,000,000 secured loan notes which was due on 17 December 2021. As the loans under the Loan Agreements became overdue and the Group considered that it was unlikely to recover the outstanding loan balances, an impairment provision on loan receivables of RMB118.0 million was made for FY2020. As for the investment, the Company has not received any repayment since it was due on 17 December 2021. After taking into account the recoverability of the balance, the Company considered that it was unlikely to recover the outstanding investment balances and an impairment provision on note investment of RMB66.4 million was therefore made for FY2021. As a result of the above impairments, the Group recorded loss attributable to the Shareholders of approximately RMB27.7 million and RMB26.8 million for FY2020 and FY2021, respectively. Excluding the credit loss allowances, the Group would have recorded profit of approximately RMB90.3 million and RMB39.6 million for FY2020 and FY2021, respectively.

For 6M2022, the Company’s pipeline industrial gas business remained stable as compared to the corresponding period in last year, with revenue increased by approximately 7.8% from approximately RMB590.4 million for 6M2021 to approximately RMB636.4 million for 6M2022. Due to the increase in revenue as well as the enhanced production facilities efficiency and reduction in unit power consumption, gross profit of the Group also increased by approximately 28.4% from approximately RMB111.7 million for 6M2021 to approximately RMB143.4 million for 6M2022, with gross profit margin increased from approximately 18.9% for 6M2021 to approximately 22.5% for 6M2022. For 6M2022, the gross profit margin for the supply of pipeline industrial gas segment, supply of liquefied industrial gas segment and the supply of LNG and gas transmission service segment were approximately 16.6%, 67.9% and 2.7%, respectively.

As driven by the increase in gross profit and that the credit loss allowance of RMB66.4 million was fully recognised in 6M2021, the Group turnaround from loss attributable to Shareholders of approximately RMB39.6 million for 6M2021 to profit attributable to Shareholders of approximately RMB41.6 million for 6M2022. The Directors consider that with the continuous significant effect from

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effectively coordinating the pandemic prevention and control as well as the economic and social development, the economy in the PRC is expected to continue to recover in the second half of 2022 with increasing demand for industrial gas products. Hence, the Group's future business development is expected to be stable with steady growth.

(ii) Financial position

	As at	As at 31 December	
	30 June	2021	2020
	2022	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets, including	1,622,246	1,595,732	1,594,253
Property, plant and equipment	1,567,905	1,540,715	1,495,556
Right-of-use assets	44,672	45,667	49,471
Other assets	7,267	7,044	45,999
Current assets, including	905,069	810,317	930,465
Trade receivables	479,019	427,211	277,926
Prepayments, deposits and other receivables	15,023	51,963	83,999
Financial assets at fair value through other comprehensive income	93,683	23,444	48,823
Cash and cash equivalents	307,499	297,553	511,834
Non-current liabilities, including	176,770	336,187	285,694
Borrowings	148,730	313,206	270,806
Deferred tax liabilities	25,020	19,785	11,124
Current liabilities, including	1,031,847	787,832	920,531
Trade and other payables	558,318	470,609	576,584
Contract liabilities	9,109	9,345	6,313
Borrowings	441,800	288,510	323,690
Income tax payable	12,087	8,842	4,403
Net current assets/(liabilities)	(126,778)	22,485	9,935
Equity attributable to the Shareholders	1,318,697	1,282,030	1,318,493
Gearing ratio (calculated as total debt, being total borrowings and lease liabilities, divided by total equity)	45.8%	48.0%	46.1%

As at 30 June 2022, non-current assets of the Group amounted to approximately RMB1,622.2 million, which mainly included property, plant and equipment of approximately RMB1,567.9 million, primarily representing the Group's machinery, construction in progress, building, instruments and other equipment. As at 30 June 2022, current assets of the Group amounted to approximately

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RMB905.1 million, which mainly included (a) trade receivables of approximately RMB479.0 million, primarily representing amounts due from the HBIS Group; and (b) cash and cash equivalents of approximately RMB307.5 million. The decrease in cash and cash equivalents from approximately RMB511.8 million as at 31 December 2020 to approximately RMB307.5 million as at 30 June 2022 was mainly due to the payment of dividend of approximately RMB148.8 million during FY2021.

As at 30 June 2022, non-current liabilities of the Group were approximately RMB176.8 million, which mainly consisted of borrowings of approximately RMB148.7 million, and current liabilities of the Group were approximately RMB1,031.8 million, which mainly included (a) trade and other payables of approximately RMB558.3 million; and (b) borrowings of approximately RMB441.8 million. As at 30 June 2022, the Group had total borrowings of approximately RMB590.5 million. As at 30 June 2022, the bank borrowings of the Group bore interest rate at a range of Loan Prime Rate plus 0.50% to plus 4.785% and People's Bank of China benchmark interest rate of 4.35%.

(iii) Overall comment

The manufacturing sector in the PRC has recovered rapidly from the pandemic in 2021 and the PRC economy is expected to continue to recover in the second half of 2022. As one of the leading industrial gas suppliers in the PRC, the Group has benefited from the recovery of the manufacturing sector, and recorded increment in revenue for FY2021 and grow steadily in 6M2022. Excluding the credit loss allowances arising from the unauthorised transactions entered into by an ex-Director from December 2020 to February 2021, the Group recorded profit of approximately RMB90.3 million and RMB39.6 million for FY2020 and FY2021, respectively. Such decrease was mainly due to the expenses relating to an independent investigation conducted by the Company. As announced by the Company on 5 May 2022 and 23 March 2022, the relevant ex-Director was removed and the independent investigation was completed. As a result, the Group's financial performance for the year ending 31 December 2022 is expected to be no longer affected by the incident. For 6M2022, the financial performance of the Group turnaround from loss to profit attributable to Shareholders of approximately RMB41.6 million.

The financial position of the Group is acceptable. Although the Group recorded net current liabilities of approximately RMB126.8 million as at 30 June 2022, the Group had net assets of approximately RMB1,318.7 million. Such net current liabilities position was mainly due to continuous investment in property, plant and equipment for development of the Group's business, which were classified as non-current assets. Nonetheless, the gearing ratio of the Group slightly decreased from approximately 48.0% as at 31 December 2020 to approximately 45.8% as at 30 June 2022 mainly due to the repayment of borrowings.

2. Information on the HBIS Group

HBIS is a joint stock limited company established under the laws of the PRC with limited liability. As at the Latest Practicable Date, HBIS is an ultimate controlling shareholder of HBIS Company and one of the Controlling Shareholders holding approximately 35.99% of the issued share capital of the Company through its subsidiaries and it is, in turn, wholly-owned by the Hebei Province SASAC.

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The HBIS Group, comprising HBIS and its subsidiaries, was a State-owned iron and steel group in Hebei, the PRC. Companies under the HBIS Group primarily produce and sell iron and steel products which are used in various industries such as automobiles, petroleum, railways, bridges, construction, power, transportation, machinery, shipbuilding, light industry, home appliances, pipelines, warehousing, electrical and mechanical, canned products, welding, environmental protection, steel structure, chemical industry, water conservancy, and other applications.

HBIS Company, a joint stock company established under the laws of the PRC with limited liability, is one of the major operating subsidiaries of the HBIS Group and has been listed on the Shenzhen Stock Exchange since March 1997 (stock code: 000709).

Tangshan Plate is a company established under the laws of the PRC with limited liability and a non-wholly owned subsidiary of HBIS Company. Tangshan Plate is principally engaged in the production and sales of middle and heavy steel plate.

3. Reasons for and benefits of entering into of the Gas Products Supply Agreement

As disclosed in the Letter from the Board, TTG is currently the exclusive pipeline industrial gas supplier for Tangshan Plate. The current average oxygen consumption by Tangshan Plate is approximately 78,000 Nm³/hr while the oxygen production capacity of the relevant branch of TTG is approximately 68,000 Nm³/hr. TTG has been purchasing liquefied oxygen from third parties to supplement the shortfall of its supply of oxygen to Tangshan Plate, resulting in increased costs for TTG. The Group understands that Tangshan Plate's demand for oxygen is expected to further increase by approximately 30% for the coming year according to its production plan. In light of the above, Tangshan Plate and TTG agreed to cooperate in implementing the Project to tackle the oxygen supply shortage.

According to the terms of the Gas Products Supply Agreement, TTG shall be responsible for the construction of the Production Unit and shall operate the Production Unit to produce oxygen (80% purity) and Tangshan Plate shall provide the Utilities for the operations of the Production Unit during the Term. The oxygen to be produced by the Production Unit is similar to the gas products normally produced by the Company in the ordinary course of business except for the difference in purity and pressure. Tangshan Plate will purchase gas products in an aggregate amount (after netting off certain operating expenses including the Utilities expenses and power supply circuit, labour and maintenance costs and excluding tax) of RMB124,355,400 (the "**Guaranteed Purchase**") by the end of the Term. As disclosed in the Letter from the Board, before netting off the operating expenses, the aggregate amount of purchase made by Tangshan Plate during the Term is estimated to be RMB248,594,000 (the "**Aggregate Purchase**"). By the end of the Term, any shortfall of the Guaranteed Purchase will be made up by Tangshan Plate to TTG. Upon expiry or termination of the Gas Products Supply Agreement, the ownership of the Production Unit shall be transferred from TTG to Tangshan Plate at nil consideration, provided that TTG is fully compensated by Tangshan Plate for all the cost and loss (if any) incurred by TTG in connection with the investment and construction of the Project.

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The total investment of the Production Unit was in the amount of RMB82.9 million (including costs of construction and installation of approximately RMB24.9 million and costs of equipment and materials of approximately RMB58 million). Tangshan Plate shall purchase the gas products produced by TTG at the Production Unit in an aggregate amount of RMB248,594,000 (before netting of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement) during the Term. Upon our enquiry, we have obtained and reviewed the breakdown and calculations of the estimated cost to be incurred for the entire Project, including the Utilities costs, electricity power supply costs, construction and related depreciation costs, labour costs and maintenance costs. Based on the Guaranteed Purchase of RMB124,355,400 (net of operating expenses) and the investment amount of the Production Unit of RMB82.9 million, the Group shall earn an aggregate income of approximately RMB41.5 million during the Term, representing a total return of approximately 50.1% (i.e. RMB41.5 million divided by RMB82.9 million).

We also noted that the Group has sufficient financial resources with cash and cash equivalents of approximately RMB307.5 million as at 30 June 2022, which represented a sound financial position and was sufficient to cover the construction costs in full without incurring any borrowings. On the other hand, the supply of gas products is conducted in the ordinary and usual course of business of the Group and the Group is already supplying pipeline industrial gas to a few members of the HBIS Group. Hence, we consider the transactions contemplated under the Gas Products Supply Agreement represented an opportunity for the Group to derive additional income and bridge the gap between its existing production capacity and Tangshan Plate's increasing demand for pipeline industrial gas.

In addition, we noted that HBIS Company, being one of the controlling Shareholder and the holding company of Tangshan Plate, is one of the major operating subsidiaries of the HBIS Group, which is a State-owned iron and steel group in Hebei. HBIS Company has been listed on the Shenzhen Stock Exchange since March 1997, and is the largest customer of the Group for FY2020 and FY2021. According to the annual report of HBIS Company for FY2021, HBIS Company recorded revenue and profit attributable to shareholders of approximately RMB149,626.2 million and RMB2,688.1 million for FY2021 respectively, and had net assets attributable to shareholders of approximately RMB51,036.3 million as at 31 December 2021. Furthermore, we have obtained and reviewed the audited report of Tangshan Plate for FY2021 and noted that Tangshan Plate recorded revenue and profit after tax of approximately RMB14,621.1 million and RMB94.9 million for FY2021 respectively, and had net assets approximately RMB4,892.5 million as at 31 December 2021. The management of the Group had further advised that the average age of trade receivable of the Company from Tangshan Plate was approximately three months during the period from January 2021 to July 2022, which represented a timely payment record. Given the sound financial position of HBIS Company and Tangshan Plate, we concur with the Directors that the credit risk in relation to the recovery of the agreed aggregate purchase amount under the Gas Products Supply Agreement is not significant.

Taking into account that (i) the transactions contemplated under the Gas Products Supply Agreement represents an opportunity for the Group to derive additional income under its ordinary and usual course of business; (ii) the Group has sufficient internal resources for the construction costs of the Production Unit without incurring any borrowings; and (iii) the credit risk related to the recovery of the guaranteed revenue under the Gas Products Supply Agreement is not significant, we concur with the Directors that the transactions contemplated under the Gas Products Supply Agreement are in the interest of the Company and the Shareholders as a whole.

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4. Principal terms of the Gas Products Supply Agreement

Set out below is a summary of the principal terms of the Gas Products Supply Agreement. Independent Shareholders are advised to read further details of the Gas Products Supply Agreement as disclosed in the Letter from the Board:

Date : 29 June 2022

Parties : (i) TTG; and
(ii) Tangshan Plate

Construction : Pursuant to the Gas Products Supply Agreement, TTG agreed to invest in the construction of the Production Unit in the amount of RMB82.9 million. The investment amount of approximately RMB82.9 million on the construction of the Production Unit was based on the quotations obtained from independent third parties through the tendering processes. Contractors will be engaged by TTG for the construction and installation of the Production Unit. The Production Unit will be used for production of gas product exclusively for Tangshan Plate after completion of the construction.

The operation of the Production Unit is based on the Tangshan Plate's production needs. Therefore, Tangshan Plate is obligated to purchase all the gas products produced by TTG at the Production Unit during the Term.

Operation : Upon completion of the construction of the Production Unit, TTG shall operate the Production Unit to produce oxygen (80% purity) and Tangshan Plate shall provide the Utilities for the operations of the Production Unit during the Term.

(a) Production and supply of gas products

The oxygen to be produced by the Production Unit is similar to the gas products normally produced by the Company in the ordinary course of business except for the difference in purity and pressure.

Tangshan Plate shall purchase the gas products produced by TTG at the Production Unit at RMB0.4266/m³. Tangshan Plate shall pay TTG the purchase amount on a monthly basis during the Term.

The purchase price of RMB0.4266/m³ was determined based on the cost of the Project (including the investment amount and the operation cost), taking into account the transfer of the Product Unit and the Terms, and with reference to (among others) the historical price of gas products supplied to Tangshan Plate.

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The Utilities and related expenses of the Project for production of the gas products is estimated to be RMB0.2132 per m³, among which, the electricity expense for producing the oxygen is estimated to be RMB0.1742 per m³. The gross profit of the Project is expected to be RMB0.2134 per m³.

As at the Latest Practicable Date, the current selling price under the existing operational gas products and related services agreement (the “**2018 Operational Gas Products and Related Services Agreement**”) entered into on 13 June 2018 between TTG and Tangshan Plate was RMB 0.4266 per m³, the utilities and related expenses for production of the gas products were RMB 0.393 per m³, among which, the electricity expense for the production of oxygen is RMB0.32 per m³. The gross profit of the current agreement is RMB0.0336 per m³. As the Production Unit which uses pressure swing adsorption technology to produce oxygen could reduce the electricity consumption, the utilities and related expenses of the Project are lower than those under the 2018 Operational Gas Products and Related Services Agreement while the gross profit per m³ is higher than that under the 2018 Operational Gas Products and Related Services Agreement.

Based on the above, the Directors are of the view that it is fair and reasonable to set the selling price of the gas products payable by Tangshan Plate under the Project at RMB0.4266 per m³ as the transactions thereunder offer higher profits to TTG and enable TTG to recover the investment amount during the Term.

(b) Procurement of Utilities

Tangshan Plate shall provide the Utilities for the operation of the Production Unit during the Term and TTG shall pay the Utilities expenses in accordance with the 2018 Operational Utilities and Related Services Agreement, which is subject to the Master Utilities and Related Services Agreement.

The 2018 Operational Utilities and Related Services Agreement entered into between Tangshan Plate and TTG on 13 June 2018 with a term of 15 years pursuant to which, TTG agreed to procure from Tangshan Plate i) electricity at RMB0.52/kWh (exclusive of tax); ii) water at RMB4.21 per tonne (exclusive of tax); iii) heating at price not more than the price at which Tangshan Plate supplies to other workshops within its factory price (exclusive of tax); (iv) steam at RMB80 per tonne (exclusive of tax). The Utilities fees are payable on a monthly basis based on the actual volume of relevant Utilities procured by TTG.

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For further details of the 2018 Operational Utilities and Related Services Agreement, please refer to the sub-sections headed “Principal terms of the 2018 Operational Utilities and Related Services Agreement” in the Letter from the Board.

The amount of Utilities expenses to be incurred by TTG under the Gas Products Supply Agreement is estimated based on the unit price of the relevant Utilities and the amount of the Utilities expected to be procured by TTG in production of such volume of industrial gases for the aggregated amount of purchase as set out in the Gas Products Supply Agreement.

The gas production process involved in the Group’s business is electricity-intensive and consumes Utilities, which mainly include electricity, water and steam. The largest component of the production cost, i.e. the electricity price for gas product supply of the Project, which is expected to represent approximately 81.7% of the production cost, is RMB0.52/kWh (exclusive of tax) under the 2018 Operational Utilities and Related Services Agreement. The electricity price has not been adjusted since the 2018 Operational Utilities and Related Services Agreement signed on 13 June 2018.

While TTG may experience increased electricity prices, the Gas Products Supply Agreement allows TTG to make corresponding adjustments to the selling prices of the pipeline industrial gas by taking into account the fluctuations in electricity prices. As such, the Company expects that the amount of Utilities expenses would not have any material impact on the Company’s assessment on the fairness and reasonableness of the aggregate purchase price (after netting off the Utilities expenses).

The supply of gas products by the Company to Tangshan Plate under the Project pursuant to the Gas Products Supply Agreement, is subject to the terms and conditions of the Master Gas Products and Related Services Agreement, independent from the 2018 Operational Gas Products and Related Services Agreement. The information related to the 2018 Operational Gas Products and Related Services Agreement set out above is for reference and comparison only. For further details of the terms of the Master Gas Products and Related Services Agreement, please refer to the Prospectus and the circular of the Company dated 12 December 2022 in relation to, among other thing, the renewal of continuing connected transactions.

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The procurement of Utilities by the Company from Tangshan Plate under the Project will be conducted in accordance with the terms of the 2018 Operational Utilities and Related Services Agreement, which is subject to the terms and conditions of the Master Utilities and Related Services Agreement. For further details of the terms of the Master Utilities and Related Services Agreement, please refer to the Prospectus and the circular of the Company dated 12 December 2022 in relation to, among other thing, the renewal of continuing connected transactions.

Transfer

- : Upon expiry or termination of the Gas Products Supply Agreement, the ownership of the Production Unit shall be transferred from TTG to Tangshan Plate at nil consideration and Tangshan Plate is obligated to obtain the ownership of the Production Unit, provided that TTG is fully compensated by Tangshan Plate for all the cost and loss (if any) incurred by TTG in connection with the investment and construction of the Project.

The Transfer forms part of the transactions contemplated under the Gas Products Supply Agreement. In negotiation of the nil consideration for the Transfer under the Gas Products Supply Agreement, TTG and Tangshan Plate agreed to set nil consideration for transferring the ownership of the Production Unit as the basis, the total construction costs and the value of the Production Unit at the termination or expiry of the Gas Products Supply Agreement have been taken into account in negotiation of the overall arrangement and is expected to be covered by the revenue to be received by the Group in provision of the gas products to Tangshan Plate under the Gas Products Supply Agreement prior to the Transfer upon the end of the Initial Terms. In addition, based on the estimated gas supply capacity of 21,600 m³ per hour and annual production time of 7,884 hours per year, the maximum gas production volume per year is estimated to be 170,294,400 m³. As the average annual return on investment for the transactions contemplated under the Gas Products Supply Agreement for the (1) Initial Term of 42 month; and (2) Initial Term and 12-Month Extended Term of 54 months are calculated as approximately 19.33% and 15.03%, respectively, which are higher than the Group's borrowing interest rate of 5.21%, the Board considers that the nil transfer price is fair and reasonable and on normal commercial terms.

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Term : The Gas Products Supply Agreement has an Initial Term of 42 months commencing from the date when the Production Unit is put into operation. It is currently expected that the Production Unit will be put into operation not more than three months from the commencement of construction of the Production Unit. The Initial Term may be further extended for (i) not more than six months in the event that the actual operating hours of the Production Unit is affected by the production restrictions imposed by the PRC government; and (ii) not more than twelve months in the event that the Production Unit fails to operate due to reasons of TTG.

Termination : The Gas Products Supply Agreement shall be terminated upon the occurrence of the following events:

- (i) the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement, power supply circuit, labour and maintenance costs and excluding tax) reaches RMB124,355,400 by the end of the Initial Term or the Extended Terms; or
- (ii) the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement, power supply circuit, labour and maintenance costs and excluding tax) reaches RMB124,355,400 within the Initial Term.

During the Term, the aggregate amount of purchase to be made by Tangshan Plate before netting off certain operating expenses including the Utilities expenses and power supply circuit, labour and maintenance costs and excluding tax is expected to be RMB248,594,000. The aggregate amount of purchase is arrived at as follows: $\text{RMB124,355,400} \times \text{RMB0.4266 per m}^3 \text{ (purchase price)} \div \text{RMB0.2134 (sharing profit)} = \text{RMB248,594,000}$. Upon termination of the Gas Products Supply Agreement, the Company is expected to receive the aggregate amount of purchase of RMB124,355,400 (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement, power supply circuit, labour and maintenance costs and excluding tax), which is expected to cover the construction costs of the Production Unit of approximately RMB82.9 million.

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If the Gas Products Supply Agreement is terminated before the occurrence of the above-mentioned events as a result of TTG not being able to use the construction site or the Project is terminated for any reasons other than the default of TTG, Tangshan Plate shall compensate the resulting actual losses by TTG. Where the Gas Products Supply Agreement could no longer be performed due to the afore-mentioned reasons, TTG has the right to terminate the Gas Products Supply Agreement and Tangshan Plate shall compensate all expenses and losses incurred by TTG in performing the Gas Products Supply Agreement.

If TTG intends to continue the operations of the Production Unit upon termination of the Gas Products Supply Agreement, the cooperation arrangement will be subject to further negotiation by the parties and shall not be subject to the terms and conditions of the Gas Products Supply Agreement. Any further negotiation and cooperation arrangement will be subject to the disclosure and compliance requirements under the Listing Rules.

Other material terms

: In the event that the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement and power supply circuit, labour and maintenance costs and excluding tax) is less than RMB124,355,400 by the end of:

- (i) the Initial Term or,
- (ii) the 6-Month Extended Term in the event that the actual operating hours of the Production Unit is affected by production restrictions imposed by the PRC government, or
- (iii) the 12-Month Extended Term in the event that the Production Unit fails to operate due to reasons of TTG,

Tangshan Plate shall compensate the shortfall between RMB124,355,400 and the aggregate amount of purchase (net of certain operating expenses including the Utilities expenses incurred by TTG as agreed under the Gas Products Supply Agreement and power supply circuit, labour and maintenance costs and excluding tax) made by Tangshan Plate to TTG.

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5. Assessment of the terms of the Gas Products Supply Agreement

Construction

According to the Gas Products Supply Agreement, TTG agreed to invest in the construction of the Production Unit with the total amount of RMB82.9 million. Prior to the Transfer, TTG will be fully compensated by Tangshan Plate for all the cost and loss (if any) incurred by TTG in connection with the investment and construction of the Project.

For our due diligence purpose, we have obtained and reviewed the construction quotations obtained by the Group for the Production Unit, and we noted that the construction cost for the Production Unit is generally in line with the construction quotations. As advised by the management of the Group, since part of the construction costs would be deductible for tax, the net construction costs after tax deduction is expected to amount to approximately RMB74.2 million (the “**Net Construction Costs**”). Given the construction cost is expected to be covered by the aggregate amount of purchase of RMB124,355,400 to be made by Tangshan Plate during the Term, the Company is expected to earn an income of approximately RMB41.5 million (before taking into account of the tax deduction) or RMB50.2 million (after taking into account of the tax deduction) from the Project.

Operation

According to the Gas Products Supply Agreement, Tangshan Plate shall purchase the gas products produced by TTG at RMB0.4266/m³. For our due diligence purpose, we had obtained and reviewed the gas supply agreements entered into between the Group and other independent third party customers, and noted that the price of the gas products ranged from RMB0.421/m³ to RMB 0.489/m³, and hence the price to be offered to Tangshan Plate of RMB0.4266/m³ under the Gas Products Supply Agreement is within the range of the prices offered to other independent third party customers. Further, upon our enquiry, we understand from the Company that the monthly average selling price of gas products ranged from RMB0.431/m³ to RMB0.445/m³ during the period from January 2021 to April 2022. The price offered to Tangshan Plate of RMB0.4266/m³ represents a slight discount of approximately 1.0% to 4.1% to the monthly average selling prices of gas products. However, we consider such slight discount has been compensated by the Guaranteed Purchase provided by Tangshan Plate over the Term. Such Guaranteed Purchase has guaranteed the margin to be received by the Company regardless of the fluctuation in the prices of gas products, utilities expenses, power supply, labour and maintenance costs. Based on (i) the Guaranteed Purchase of RMB124,355,400; and (ii) the Net Construction Costs of approximately RMB74.2 million, the average annual return (the “**Guaranteed Margin**”) of the investment for the transactions contemplated under the Gas Products Supply Agreement are calculated as approximately 19.33% and 15.03% if the Project last for the Initial Term of 42 months and with the 12-Month Extended Term of 54 months respectively, which were higher than the gross profit margin of supply of pipeline industrial gas of approximately 13.8% in FY2021 and generally in line with the gross profit margin of approximately 16.6% in 6M2022.

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Given (i) the surety in income over the Term with reduced operational risk relating to the fluctuation of product prices and other direct costs; and (ii) that the selling price is within range of the prices offered to other independent third party customers, we consider the slight discount of the selling price to the monthly average selling price to be acceptable. On this basis, we consider the selling price of gas products under the Gas Products Supply Agreement to be fair and reasonable.

Transfer

According to the Gas Products Supply Agreement, the ownership of the Production Unit shall be transferred from TTG to Tangshan Plate at nil consideration upon expiry or termination of the Gas Products Supply Agreement. As mentioned in the paragraph headed “Construction” above, the Company is expected to earn an income of approximately RMB41.5 million from the Project (before taking into account of the tax deduction). Such income represents a total return of approximately 50.1% over the estimated construction cost. Assuming the Gas Products Supply Agreement will last up to the 12-Month Extended Term of 54 months, the Group will earn the Guaranteed Margin of approximately 15.03% during the Term, which is significantly higher than the interest rate the Group will earn should the Company deposit the investment amount in banks and the Group’s borrowing interest rate of 5.21%. For reference, the existing 5-year RMB deposit rate is 2.75% per annum based on the quoted rate on Bank of China. Given the background and the sound financial position of the HBIS Company, the credit risk in relation to the recovery of the above estimated income is not significant. In addition, as mentioned above, the Guaranteed Margin of approximately 19.33% and 15.03% to be received by the Company were higher than the Group’s gross profit margin in relation to supply of pipeline industrial gas of approximately 13.8% in FY2021 and generally in line with the gross profit margin of approximately 16.6% in 6M2022. As such, we consider that the annual return as implied by the Transfer is fair and reasonable.

Term

The Gas Products Supply Agreement has an Initial Term of 42 months commencing from the date when the Production Unit is put into operation. The Initial Term may be further extended for (i) the 6-Month Extended Term in the event that the actual operating hours of the Production Unit is affected by the production restrictions imposed by the PRC government; and (ii) the 12-Month Extended Term in the event that the Production Unit fails to operate due to reasons of TTG. As the Term exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, we have opined on the longer period of the Gas Products Supply Agreement and confirmed that (i) a term of longer than three years is required for the Gas Products Supply Agreement; and (ii) it is normal business practice of contracts of this type to be of such duration.

As stated in the Announcement, in arriving at our opinion that it is normal business practice for contracts of a similar nature to the Gas Products Supply Agreement to have a term of such duration, we have referred to the durations of the five existing industrial gas supply agreements (the “**Existing Agreements**”) entered into between the Group and members of the HBIS Group for the provision of industrial gas products and related services. Although the Existing Agreements did not include the construction and transfer of production units, we consider that the Existing Agreements can provide a general reference as to the market practice of longer duration for contracts relating to the supply of industrial gas products. We consider the longer duration for contracts of a similar nature to the Gas

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Products Supply Agreement will (i) extend the period of income to be generated from the supply of industrial gas products from the suppliers' perspective; and (ii) provide stability to the operation of the purchasers regarding the supply of industrial gas products for the manufacturing of iron and steel products.

For details, please refer to the section headed "Opinion from the Independent Financial Adviser" in the Letter from the Board.

Termination

The Gas Products Supply Agreement shall be terminated upon the aggregate amount of purchase made by Tangshan Plate (net of certain operating expenses) reaches RMB124,355,400 within the Term or by the end of the Term. If the Gas Products Supply Agreement is terminated for any reasons other than the default of TTG, Tangshan Plate shall compensate the resulting actual losses by TTG. Hence, TTG is not expected to incur any loss as a result of the entering and execution of the Gas Products Supply Agreement.

Although the purchase price of the gas products is fixed at a slight discount to the monthly average selling price of gas products of the Group during the period from January 2021 to April 2022 and the consideration for the Transfer is nil, taking into account (i) the Guaranteed Purchase represented surety in income over the Term with reduced operational risk relating to the fluctuation of product prices and other direct costs; (ii) the Guaranteed Margin of approximately 19.33% and 15.03% were higher than the relevant bank deposit rate and the Group's borrowing interest rate; (iii) the Guaranteed Margin were also higher than the Group's gross profit margin in relation to supply of pipeline industrial gas of approximately 13.8% in FY2021 and generally in line with the gross profit margin of approximately 16.6% in 6M2022; (iv) it is normal business practice for contracts of a similar nature to the Gas Products Supply Agreement to have a term of longer than three years; (v) the Gas Products Supply Agreement shall only be terminated when the amount of the Guaranteed Purchase is reached and any shortfall will be compensated by Tangshan Plate; and (vi) the transactions contemplated under the Gas Products Supply Agreement are conducted in the ordinary and usual course of business of the Group, we consider the terms of the Gas Products Supply Agreement are on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. The annual caps under the Gas Products Supply Agreement

The annual caps for the supply of gas products by the Company to Tangshan Plate and procurement of Utilities by the Company from Tangshan Plate under the Project pursuant to the Gas Products Supply Agreement will be covered by and calculated towards the annual caps for the Master Gas Products and Related Services Agreement and Master Utilities and Related Services Agreement, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon expiration of the Master Gas Products and Related Services Agreement and Master Utilities and Related Services Agreement and the annual caps thereunder and in the event that the approval from the independent Shareholders for their respective renewal or new annual caps is not granted, the Company will re-comply with the relevant Listing Rules or apply for waivers in respect of each of the operational gas products and related services agreements and operational utilities and related services agreements, where applicable, which will include the Gas Products Supply Agreement and the 2018 Operational Utilities and Related Services Agreement and their respective annual caps for the supply of gas products and procurement of Utilities thereunder.

7. Financial effects of the Gas Products Supply Agreement

Earnings

Pursuant to the Gas Products Supply Agreement, the Group will commence the sales of gas products to Tangshan Plate upon completion of the construction of the Production Unit. Accordingly, the revenue and profit of the Group are expected to increase. The total agreed purchase amount after netting off the operating expenses under the Gas Products Supply Agreement is RMB124,355,400. The Group is hence expected to earn an income of approximately RMB41.5 million after netting off the estimated construction costs of RMB82.9 million.

Gearing ratio

The gearing ratio of the Group as at 31 December 2021 and 30 June 2022 were approximately 48.0% and 45.8%, respectively, calculated as total debt divided by total equity. As the Company intends to settle the entire construction cost of the Production Unit by the internal resources of the Group, the construction of the Production Unit will not have a material impact on the gearing level of the Group.

Working capital

The cash and cash equivalents of the Group amounted to approximately RMB297.6 million and RMB307.5 million as at 31 December 2021 and 30 June 2022, respectively. Since the Group intends to settle the entire construction cost of the Production Unit by the internal resources of the Group, the balance of the cash and cash equivalents and therefore the working capital of the Group is expected to decrease by the construction costs to be incurred.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of Gas Products Supply Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Gas Products Supply Agreement is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Gas Products Supply Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance 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 chief executive's interests in securities

As at the Latest Practicable Date, none of the Directors or chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders' interests in securities

As at the Latest Practicable Date, to the best of the knowledge of the Directors or chief executives of the Company, the persons (other than Directors or chief executives of the Company) who had interests or short positions in Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO are as follows:

Name of Shareholder	Nature of Interest	Number of Shares interested	Approximate percentage of the Company's issued share capital
Huitang Zhihe (Hong Kong) Co., Limited (惠唐邨和(香港)有限公司) ("HK Huitang Zhihe") ⁽²⁾	Beneficial owner	431,904,000(L)	35.99%
Shanghai Huitang Zhihe Investment Co., Ltd. (上海惠唐邨和投資有限公司) ("SH Huitang Zhihe") ⁽²⁾	Interest in a controlled corporation	431,904,000(L)	35.99%
HBIS Company ⁽²⁾	Interest in a controlled corporation	431,904,000(L)	35.99%

Name of Shareholder	Nature of Interest	Number of Shares interested	Approximate percentage of the Company's issued share capital
HBIS Hansteel ⁽²⁾	Interest in a controlled corporation	431,904,000(L)	35.99%
HBIS ⁽²⁾	Interest in a controlled corporation	431,904,000(L)	35.99%
China Gas Investors Ltd. (“CGI”) ⁽³⁾	Beneficial owner	468,096,000(L)	39.01%
Huang He Investment Limited (“Huang He”) ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
China Infrastructure Partners, L.P. (“China Infrastructure”) ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
CITP GP I Ltd. (“CITP GP”) ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
BOCI Investment Limited ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
BOC International Holdings Limited ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
Bank of China Limited ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
Springleaf Investments Pte. Ltd. ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
Anderson Investments Pte. Ltd. ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
Thomson Capital Pte. Ltd. ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
Tembusu Capital Pte. Ltd. ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%
Temasek Holdings (Private) Limited ⁽³⁾	Interest in a controlled corporation	468,096,000(L)	39.01%

Notes:

(1) The letter “L” denotes the shareholder’s long position in the Shares.

- (2) HK Huitang Zhihe is wholly-owned by SH Huitang Zhihe which in turn is wholly-owned by HBIS Company, which in turn is directly and indirectly owned by HBIS Chengsteel, HBIS Hansteel and HBIS Tangsteel as to approximately 4.17%, 39.73% and 18.32%, respectively, and HBIS Chengsteel, HBIS Hansteel and HBIS Tangsteel are owned by HBIS as to 100%, 100% and 100%, respectively. As such, HBIS through its subsidiaries together indirectly holds approximately 62.22% equity interest in HBIS Company. By virtue of the SFO, each of SH Huitang Zhihe, HBIS Company, HBIS Hansteel and HBIS is deemed to be interested in the same number of Shares held by HK Huitang Zhihe.
- (3) CGI is owned as to 80% and 20% by Huang He and OxyChina Limited (“OxyChina”) respectively. Huang He is wholly-owned by China Infrastructure, whose general partner is CITP GP, which is held as to:
- (i) 60% by BOCI Investment Limited, which is wholly-owned by BOC International Holdings Limited, which is in turn wholly-owned by Bank of China Limited whose shares are listed and traded on the Main Board (stock code:3988) and the Shanghai Stock Exchange (stock code: 601988); and
 - (ii) 40% by Springleaf Investments Pte. Ltd., which is wholly-owned by Anderson Investments Pte. Ltd., which is in turn wholly-owned by Thomson Capital Pte. Ltd.. Thomson Capital Pte. Ltd. is wholly-owned by Tembusu Capital Pte. Ltd., which is in turn wholly-owned by Temasek Holdings (Private) Limited.

As at the Latest Practicable Date, (a) each of the 4 shareholders of OxyChina charged all of the shares registered in their respective own name in OxyChina; and (b) OxyChina charged all of its shares in CGI registered in its name in favour of Eastern Sky Limited as security agent nominated by Huang He pursuant to the charges dated 25 July 2011.

By virtue of the SFO, each of Huang He, China Infrastructure, CITP GP, BOCI Investment Limited, BOC International Holdings Limited, Bank of China Limited, Springleaf Investments Pte., Ltd., Anderson Investments Pte. Ltd., Thomson Capital Pte., Ltd., Tembusu Capital Pte. Ltd. and Temasek Holdings (Private) Limited is deemed to be interested in the same number of Shares held by CGI.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than Directors or chief executives of the Company) that they had interests or short positions in Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had or proposed to enter into a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

4. INTERESTS IN CONTRACTS OR ARRANGEMENT

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

5. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company for the purpose of the Listing Rules) in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up).

8. LITIGATION

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

9. QUALIFICATION AND CONSENT OF EXPERT

The following sets out the qualification of the expert who have given opinions, letter or advice included in this circular:

Name	Qualification
Rainbow Capital	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Rainbow Capital did not have any interest, direct or indirect, in 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, Rainbow Capital did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, the date to which the latest published audited accounts of the Company were made up.

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

10. MATERIAL CONTRACTS

The following contract (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and is or may be material:

- (a) the international underwriting agreement dated 21 December 2020 entered into by the Company, Mr. David T Chen, China Everbright Capital Limited as the sole sponsor, China Everbright Securities (HK) Limited as the sole representative, Soochow Securities International Brokerage Limited, Zhongtai International Securities Limited, ABCI Securities Company Limited, BOCI Asia Limited, BOCOM International Securities Limited, China Industrial Securities International Capital Limited, CMBC Securities Company Limited, Haitong International Securities Company Limited, Huarong International Securities Limited, Sheng Yuan Securities Limited, Sunfund Securities Limited, Yue Xiu Securities Company Limited, Differ Financial and Securities Limited, DL Securities (HK) Limited, Futu Securities International (Hong Kong) Limited and ZMF Asset Management Limited as Hong Kong underwriters relating to an international offering of initially 270,000,000 Shares of US\$0.0001 nominal value each in the capital of the Company, being part of a global offering of initially 300,000,000 Shares (the “**International Underwriting Agreement**”).

11. GENERAL

- (a) The secretary of the Company is Mr. Hon Ming Sang, who is a CFA charterholder, a member of The Hong Kong Society of Financial Analysts, a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of The Hong Kong Chartered Governance Institute and an associate member of The Chartered Governance Institute.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The head office is situated at No. 9 Binhe Road, Lubei District, Tangshan, Hebei Province, The People’s Republic of China. The principal place of business in Hong Kong is situated at Unit 2910, 29/F., Bank of America Tower, 12 Harcourt Road, Hong Kong.
- (c) The Company’s branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) In the event of any inconsistency, the English texts of the circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be posted on the website of the Stock Exchange (<https://www.hkexnews.hk>) and the website of the Company (<http://www.cgiiholdings.com>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the Gas Supply Products Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (c) the letter from the Independent Financial Adviser in respect of their advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular; and
- (d) the written consent referred to in the paragraph headed “9. Qualification and Consent of Expert” in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING

CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

(Incorporated in the Cayman Islands with members' limited liability)

(Stock code: 1940)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD. (the “**Company**”) will be held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 6 January 2023 at 3:00 p.m. to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the Gas Products Supply Agreement (a copy of the Gas Products Supply Agreement is tabled at the Meeting and marked “A” and initialled by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified (terms as defined in the circular of the Company dated 16 December 2022 shall have the same meanings when used in this resolution); and
- (b) any one Director (or any two Directors if the affixing of the Common Seal is necessary) be and is hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as he/she/they may, in his/her/their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Gas Products Supply Agreement and the transactions contemplated thereunder and the implementation thereof, including, without limitation, the affixing of Common Seal thereon.”

By Order of the Board

CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

Yao Li

Chairman and Executive Director

Tangshan, 16 December 2022

Notes:

- 1. Resolution at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Listing Rules. The results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
- 2. Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his/her behalf at the above meeting. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of Shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for the above meeting (i.e. not later than 3:00 p.m. on Wednesday, 4 January 2023 (Hong Kong time)) or the adjourned meeting (as the case may be). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person or via electronic facilities at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining shareholders' entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Tuesday, 3 January 2023 to Friday, 6 January 2023, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the meeting, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 30 December 2022.
5. If a tropical cyclone warning signal number 8 or above is hoisted or is expected to be hoisted or a black rainstorm warning signal is in force or expected to be in force in Hong Kong at or at any time after 12:00 noon on the date of the meeting, the meeting will be automatically postponed to a later date. The Company will post an announcement on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.cgiiholdings.com) to notify Shareholders of the date, time and location of the rescheduled meeting. The meeting will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force in Hong Kong. Shareholders should in any event exercise due care and caution when deciding to attend the meeting in adverse weather conditions.

Shareholders of the Company should make their own decision as to whether they would attend the meeting under bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.
6. The Company will conduct the Extraordinary General Meeting as a hybrid meeting using Tricor e-Meeting System, which allows registered Shareholders to participate in the Extraordinary General Meeting online in a convenient and efficient way from anywhere with an internet connection, in addition to the traditional physical attendance at the Extraordinary General Meeting. Registered Shareholders will be able to view the live broadcast and participate in voting and submit questions in written form to the Extraordinary General Meeting via their mobile phones, tablet, or computers. Details of the Tricor e-Meeting System shall be provided in the letter to be sent to Shareholders in due course.
7. Shareholders are advised to read the "SPECIAL ARRANGEMENTS AND PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING" section in the circular for further details and monitor the development of COVID-19. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.