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湖州燃气股份有限公司

Huzhou Gas Co., Ltd.*

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

(Stock Code: 6661)

DISCLOSEABLE AND CONNECTED TRANSACTION PROCUREMENT AND CONSTRUCTION CONTRACT

On 1 March 2023, Nanxun Xinao, a subsidiary of the Company, entered into the Procurement and Construction Contract with Xindi Energy, pursuant to which, Xindi Energy, acting as the contractor, agreed to provide procurement and construction services to Nanxun Xinao, as the principal, for the construction project of a comprehensive gas source station of the Group in Huzhou, the PRC.

Listing Rules Implications

As the highest applicable percentage ratio in respect of the entering into of the Procurement and Construction Contract exceeds 5% but is less than 25%, the entering into of the Procurement and Construction Contract constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As Xindi Energy is a 30%-controlled company (within the meaning of the Listing Rules) of Mr. Wang Yusuo, who is a controlling shareholder (within the meaning of the Listing Rules) of Nanxun Xinao, a non-wholly owned subsidiary of the Company, Xindi Energy is therefore a connected person of the Company at subsidiary level. Given that (i) the Procurement and Construction Contract is on normal commercial terms; and (ii) the Board (including the independent non-executive Directors) has approved the Procurement and Construction Contract and confirmed that the terms of the Procurement and Construction Contract is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Procurement and Construction Contract is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

INTRODUCTION

The Board announces that on 1 March 2023, Nanxun Xinao, a subsidiary of the Company, entered into the Procurement and Construction Contract with Xindi Energy, pursuant to which, Xindi Energy, acting as the contractor, agreed to provide procurement and construction services to Nanxun Xinao, as the principal, for the construction project of a comprehensive gas source station of the Group in Huzhou, the PRC.

THE PROCUREMENT AND CONSTRUCTION CONTRACT

The principal terms of the Procurement and Construction Contract are set out below:

Date: 1 March 2023

Parties: (i) Nanxun Xinao, as principal (a subsidiary of the Company)
(ii) Xindi Energy, as contractor

Scope of service: Xindi Energy agreed to serve as a procurement and construction contractor in relation to the construction project of a comprehensive gas source station of the Group in Huzhou, the PRC. Services include, but are not limited to:

- (1) the procurement of equipment and materials for construction project;
- (2) installation of electricity, water supply and drainage, heating, ventilation, air conditioning, automatic controls, video surveillance and other installation projects;
- (3) construction of gas source station process equipment area, gasification process equipment area, comprehensive building, fire pool, outdoor and other construction projects; and
- (4) construction of outbound sub-high pressure pipeline.

Term: The services shall commence on 1 March 2023 and are expected to end by 17 September 2023, unless otherwise determined by the parties.

Consideration and payment method: The total consideration of the Procurement and Construction Contract consisting of equipment fee of approximately RMB27,172,629.46, construction and installation fee of approximately RMB35,823,151.05, and procurement and storage fee of approximately RMB679,315.74 is approximately RMB63,675,096.25 (tax inclusive) which is subject to adjustments arising from the actual volume of construction works or fluctuations in published prices of labour, materials and equipment.

The consideration shall be settled as follows:

Equipment fee

- (1) up to 30% of the total equipment fee shall be paid as prepayment upon signing of the Procurement and Construction Contract;
- (2) up to 80% of the total equipment fee shall be paid after the receipt of the equipment after inspection;
- (3) up to 95% of the total equipment fee shall be paid after the completion of installation and the passing of quality tests of the equipment; and
- (4) the remaining 5% of the total equipment fee shall be retained as quality warranty money and will be released 12 months after the date of completion of construction project.

Construction and installation fee

- (1) up to 20% of the total construction and installation fee shall be paid as prepayment upon signing of the Procurement and Construction Contract;
- (2) up to 80% of the total construction and installation fee shall be paid according to the progress of construction and installation;
- (3) up to 97% of the total construction and installation fee shall be paid after the completion of the construction and the passing of quality tests; and
- (4) the remaining 3% of the total construction and installation fee shall be retained as quality warranty money and will be released 24 months after the date of completion of construction project.

Procurement and storage fee

- (1) up to 50% of the total procurement and storage fee shall be paid as upon signing of the Procurement and Construction Contract; and
- (2) the remaining 50% of the total procurement and storage fee shall be paid upon date of completion of construction project.

Performance
guarantee:

Xindi Energy shall provide a letter of performance guarantee issued by a qualified bank with an amount equivalent to 10% of the consideration under the Procurement and Construction Contract, to guarantee the due performance by Xindi Energy of its obligations under the Procurement and Construction Contract for the period from the date of the agreement to 30 September 2023.

Basis of Determination of the Consideration

The consideration was determined by the parties after arm's length negotiation and through a tender process and shall be satisfied by internal resources of the Group. In particular, the Company has considered the following factors during the selection: (i) the overall proposals submitted by the candidates of contractors; (ii) the track record of the candidates of contractors on performing similar size projects; (iii) the size of operation, manpower and financial performance of the candidates of contractors; and (iv) the prevailing market price of provision of the similar services.

Reasons for and Benefits of entering into of the Procurement and Construction Contract

In order to further improve the safe and stable supply of natural gas in the operating area of the Group in Huzhou, the Group has implemented the plan to construct a comprehensive gas source station with a site area of approximately 21.097 mu in Huzhou, which could allow the Group to have its own station to offload natural gas from the main pipeline of the national pipeline network and its own liquefied natural gas emergency storage capacity, resulting in the Group having greater independence and ability to maintain reliable gas supply and at the same time fulfilling the requirements of the government for the construction of emergency gas storage facilities. The Group has selected Xindi Energy as a contractor for the procurement and construction services through a tender process having regard to the various factors as elaborated in the paragraph headed "Basis of Determination of the Consideration" above in this announcement.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms and conditions, including the consideration, of the Procurement and Construction Contract, which was entered into in connection with the ordinary and usual course of business of the Group, are fair and reasonable, on normal commercial terms and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

As the highest applicable percentage ratio in respect of the entering into of the Procurement and Construction Contract exceeds 5% but is less than 25%, the entering into of the Procurement and Construction Contract constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As Xindi Energy is a 30%-controlled company (within the meaning of the Listing Rules) of Mr. Wang Yusuo, who is a controlling shareholder (within the meaning of the Listing Rules) of Nanxun Xinao, a non-wholly owned subsidiary of the Company, Xindi Energy is therefore a connected person of the Company at subsidiary level. Given that (i) the Procurement and Construction Contract is on normal commercial terms; and (ii) the Board (including the independent non-executive Directors) has approved the Procurement and Construction Contract and confirmed that the terms of the Procurement and Construction Contract is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Procurement and Construction Contract is subject to the reporting and announcement requirements but is exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

None of the Directors had a material interest in the transaction and had to abstain from voting on the relevant board resolution.

Due to inadvertent oversight, the entering into of the Procurement and Construction Contract was not announced by the Company in a timely manner in accordance with the Listing Rules which constituted a breach of Chapter 14 and Chapter 14A of the Listing Rules.

REMEDIAL ACTIONS

In order to prevent the recurrence of similar incidents, the Company has taken the following remedial actions to ensure the full understanding of, and timely compliance with, the relevant Listing Rules:

- (i) reviewing and re-circulating to the management and related departments of the Group the relevant Listing Rules and the Company's guidelines and procedures regarding timely reporting to the senior management about potential notifiable and connected transactions;
- (ii) providing trainings to the management and related departments of the Group in order to enhance their awareness and knowledge on the relevant Listing Rules; and
- (iii) reviewing the manpower and responsibility allocation for monitoring potential notifiable and connected transactions.

Going forward, to ensure timely compliance with the relevant Listing Rules and approval by the Board and the Shareholders (where applicable), the Company will continue to take the above actions from time to time and will also consult external legal advisers, financial advisers and/or the Stock Exchange in case of any doubt on notifiable transactions and/or connected transactions.

INFORMATION OF THE PARTIES

The Group is principally engaged in (i) the sale of gas, mainly piped natural gas (under the concessions) and liquefied natural gas in Huzhou; (ii) the provision of construction and installation services; and (iii) others, including sale of energy, distributed photovoltaic power, household gas appliances and relevant equipment, and leasing of properties.

Nanxun Xinao is a company established in the PRC with limited liability and is a direct non-wholly owned subsidiary of the Company. It is primarily engaged in distribution and sales of natural gas, and provision of construction and installation services of gas pipeline network in its operating area in Huzhou, the PRC. Nanxun Xinao is owned as to 51% by the Company and 49% by 新奧集團股份有限公司 (ENN Group Co., Ltd.*) ("**ENN Group**"). Based on publicly available information, as at the date of the Procurement and Construction Contract and as at the date of this announcement, ENN Group was and is ultimately controlled as to approximately 99.7% by Mr. Wang Yusuo and his spouse Ms. Zhao Baoju, and owned as to approximately 0.3% by 21 other individuals who are, to the best knowledge and belief of the Directors after making due enquiries, parties independent of the Company and its connected persons.

Xindi Energy is a company established in the PRC with limited liability that is principally engaged in energy engineering, construction, industrial design and procurement and sales of engineering equipment and materials. It is wholly owned by 新奧(天津)能源投資有限公司 (ENN (Tianjin) Energy Investment Co., Ltd.*) which is in turn wholly owned by ENN Natural Gas Co., Ltd. (“**ENN Natural Gas**”), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600803). Based on the published announcements of ENN Natural Gas, as at the date of the Procurement and Construction Contract and as at the date of this announcement, ENN Natural Gas was and is owned as to approximately 44.2% by ENN Group International Investment Limited, an entity ultimately wholly owned by Mr. Wang Yusuo and his spouse Ms. Zhao Baoju.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings as set out below:

“Board”	the board of Directors of the Company
“Company”	湖州燃氣股份有限公司 (Huzhou Gas Co., Ltd.*), a joint stock limited liability company incorporated in the PRC whose issued H Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Nanxun Xinao”	湖州南潯新奧燃氣有限公司 (Huzhou Nanxun Xinao Gas Company Limited*), a direct non-wholly owned subsidiary of the Company and the principal under the Procurement and Construction Contract
“PRC”	the People’s Republic of China, which for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Procurement and Construction Contract”	the procurement and construction contract entered into between Nanxun Xinao and Xindi Energy dated 1 March 2023 in relation to the provision of procurement and construction services by Xindi Energy to Nanxun Xinao for the construction project of a comprehensive gas source station of the Group in Huzhou, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of issued shares of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xindi Energy”	新地能源工程技術有限公司 (Xindi Energy Engineering Technology Co., Ltd.*), the contractor under the Procurement and Construction Contract and a connected person of the Company at subsidiary level
“%”	per cent

For and on behalf of
Huzhou Gas Co., Ltd.*
Wang Hua
Chairman

Huzhou City, Zhejiang Province, the PRC, 9 June 2023

As at the date of this announcement, the Board comprises Mr. Wang Hua, Ms. Su Li and Mr. Pan Haiming as executive Directors; Mr. Liu Jianfeng and Ms. Wu Zhanghuan as non-executive Directors; and Mr. Chang Li Hsien Leslie, Dr. Lau Suet Chiu Frederic and Mr. Zhou Xinfa as independent non-executive Directors.

* *For identification purposes only*