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

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

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
NEW NATURAL GAS FRAMEWORK AGREEMENT**

NEW NATURAL GAS FRAMEWORK AGREEMENT

Pursuant to the new regulatory policy in Zhejiang Province, the PRC which came into effect on 1 April 2023, the pricing notices regulating the gas purchase prices would no longer be issued by the government. On 14 July 2023, the Company and Jiaying Pipeline Company entered into the New Natural Gas Framework Agreement in substitution for the Existing Master Supply Agreements to reflect, among others, the new pricing basis under which the Group would purchase, and Jiaying Pipeline Company and/or its subsidiaries would sell to the Group, natural gas for the period from 1 April 2023 to 31 March 2028.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Jiaying Pipeline Company is a direct wholly-owned subsidiary of City Development, a substantial Shareholder. As such, Jiaying Pipeline Company is an associate of City Development, and hence a connected person of the Company pursuant to Rule 14A.13(1) of the Listing Rules. The transactions contemplated under the New Natural Gas Framework Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As the highest of the New Annual Caps for the transactions contemplated under the New Natural Gas Framework Agreement exceeds HK\$10 million and one or more of the applicable percentage ratios also exceed 5%, the New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

A circular containing, among other things, (i) details of the New Natural Gas Framework Agreement and the New Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of EGM, is expected to be despatched to the Shareholders on or before 31 August 2023 which is more than 15 business days after publication of this announcement as additional time is required for preparing and gathering the relevant information to be contained in the circular.

INTRODUCTION

References are made to the prospectus of the Company dated 30 June 2020, the announcement of the Company dated 30 August 2021, the circular of the Company dated 15 October 2021, the announcement of the Company dated 23 September 2022 and the circular of the Company dated 14 October 2022 in relation to the Existing Master Supply Agreements and the related annual caps up to the year ending 31 December 2025.

Under the Existing Master Supply Agreements, the gas sourcing price (which comprises (1) gas purchase price and (2) pipeline gas transmission price) charged by Jiaying Pipeline Company to the Group for the transactions under the Existing Master Supply Agreements was set according to the pricing notices published by the government from time to time.

Pursuant to the new regulatory policy in Zhejiang Province, the PRC which came into effect on 1 April 2023, pricing notices regulating the gas purchase prices would no longer be issued by the government, whereas pricing notices regulating the pipeline gas transmission price would remain to be issued by the government from time to time. Such change in regulatory policy in turn caused a change to the pricing basis for transactions contemplated under the Existing Master Supply Agreements. In response to the aforementioned change and to ensure continual supply of natural gas by Jiaying Pipeline Company to the Group, on 14 July 2023, the Company and Jiaying Pipeline Company entered into the New Natural Gas Framework Agreement in substitution for the Existing Master Supply Agreements to reflect, among others, the new pricing basis under which the Group would purchase, and Jiaying Pipeline Company and/or its subsidiaries would sell to the Group, natural gas for the period from 1 April 2023 to 31 March 2028.

PRINCIPAL TERMS OF THE NEW NATURAL GAS FRAMEWORK AGREEMENT

Date

14 July 2023

Parties

- (1) the Company (for itself and on behalf of its subsidiaries), as purchaser; and
- (2) Jiaxing Pipeline Company (for itself and on behalf of its subsidiaries), as supplier

Term

1 April 2023 to 31 March 2028

Subject matter

Under the current arrangements between Jiaxing Pipeline Company and the Group, the forms of transaction and the respective pricing components are as follows:

Forms of transaction	Pricing component
(A) Natural gas is sold and transmitted by Jiaxing Pipeline Company and/or its subsidiaries	Gas sourcing price = Gas purchase price + Pipeline gas transmission price
(B) Natural gas transmitted by Jiaxing Pipeline Company and/or its subsidiaries only (where natural gas is sold by parties other than Jiaxing Pipeline Company and/or its subsidiaries)	Pipeline gas transmission price

Pricing policy

Gas purchase price: The price shall be determined based on the government regulated price published by Zhejiang Provincial Development and Reform Commission from time to time. If there is no such government regulated price, the price shall be the price at which Jiaxing Pipeline Company purchases the natural gas from its upstream supplier.

Pipeline gas transmission price: The price shall be determined based on the government regulated price published by Jiaxing Development and Reform Commission from time to time.

Other terms

The annual contract purchase volume (合同量) for each gas supply year (供氣年), which is a 12-month period from 1 April of each year, shall be agreed under individual agreements to be entered into by the parties. The parties shall have one opportunity to negotiate and adjust the annual contract purchase volume of the subsequent gas supply years within three (3) months before the start of the second gas supply year, and the range of adjustment shall in principle be within 95% to 105% of the pre-determined annual contract purchase volume. If the adjusted annual contract purchase volume proposed by the Group exceeds 105% of the pre-determined annual contract purchase volume, Jiaxing Pipeline Company has the right to consider whether it is able to fulfil the proposed adjusted volume based on its resources and pipeline transmission capacity. If the parties could not agree on any adjusted volume prior to the commencement of the second gas supply year, the pre-determined annual contract purchase volume shall continue to apply.

The New Natural Gas Framework Agreement shall take effect and substitute the Existing Master Supply Agreements after the necessary approval is obtained from the Independent Shareholders.

NEW ANNUAL CAPS AND BASIS OF DETERMINATION

(a) Historical transaction amounts, existing annual caps and New Annual Caps

For the years ended 31 December 2021 and 31 December 2022 and the five months ended 31 May 2023, the historical transaction amounts (tax exclusive) of the Group under Existing Master Supply Agreements are as follows:

	For the year ended 31 December		For the five months ended
	2021	2022	31 May 2023
	(RMB million)	(RMB million)	(RMB million)
	(audited)	(audited)	(unaudited)
Historical amount	1,228.5	1,839.7	52.8

The Company proposes that the below New Annual Caps (tax exclusive) be set for the gas sourcing and pipeline gas transmission transactions contemplated under the New Natural Gas Framework Agreement:

	For the year ending 31 December				For the three months ending	
	2023	2024	2025	2026	2027	31 March 2028
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Existing annual caps	1,573	1,730	1,903	–	–	–
New annual caps	1,350	1,385	1,550	1,600	1,670	450

(b) Basis of determination for the New Annual Caps

In determining the New Annual Caps, the Directors estimated the transaction amount for natural gas purchased from and transmitted by Jiaxing Pipeline Company and the transaction amount for natural gas transmitted by Jiaxing Pipeline Company only. The Directors took into account (i) the projected volume of consumption of natural gas of the Group, with reference to (a) the historical consumption volume, (b) the potential growth in demand for natural gas in the Group's operating area in Jiaxing, the PRC, and (c) the expected increase in proportion of natural gas to be supplied by third party suppliers; and (ii) (a) the estimated gas purchase price with reference to the prevailing prices in Zhejiang Province, the PRC and (b) the current government regulated pipeline gas transmission price.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW NATURAL GAS FRAMEWORK AGREEMENT

Jiaxing Pipeline Company is the largest upstream supplier of piped natural gas in Jiaxing, the PRC and operates the pipeline network for transmission of piped natural gas in Jiaxing, the PRC. In order to supply the Group's gas distribution business, while the Group primarily purchases natural gas from Jiaxing Pipeline Company since it has the largest capacity of supply, the Group also purchases natural gas from other suppliers, given that as part of the X+1+X reform model for the national natural gas system, the Group has diversified its sources of natural gas supply such that the Group would purchase natural gas from multiple suppliers, in addition to Jiaxing Pipeline Company, in order to improve the Group's natural gas supply capacity and competitiveness. As the gas distribution network of the Group is connected to the pipeline network of Jiaxing Pipeline Company, the piped natural gas that the Group purchased from Jiaxing Pipeline Company as well as other suppliers is also transmitted through the pipeline network of Jiaxing Pipeline Company.

Jiaxing Pipeline Company and the Group entered into the Existing Master Supply Agreements in 2016 in relation to the supply of piped natural gas to the Group for a period up to 31 December 2025 based on the government regulated gas sourcing price which is composed of (1) gas purchase price and (2) pipeline gas transmission price. As part of a natural gas market reform, on 8 December 2022, the Zhejiang Provincial Development and Reform Commission (浙江省發展和改革委員會) issued the 《省發展改革委關於天然氣省級門站價格等有關事項的通知》浙發改價格[2022]307號 (Notice of the Provincial Development and Reform Commission on Natural Gas Provincial Gate Station Prices and Other Matters Zhejiang Development Reform Price [2022] No. 307*) which states that pricing notices regulating the gas purchase price would no longer be issued by the government from 1 April 2023. As explained in the paragraph headed "Introduction" in this announcement, such change in regulatory policy in turn caused a change to the pricing basis for transactions contemplated under the Existing Master Supply Agreements, and necessitated Jiaxing Pipeline Company and the Company to enter into the New Natural Gas Framework Agreement in order to reflect, among others, the new pricing basis for the natural gas transactions between the parties in the upcoming five years. The entering into of the New Natural Gas Framework Agreement is beneficial to the development of the Group as the Group could secure a stable natural gas supply for its natural gas business and also allows the Group to utilise the pipeline network of Jiaxing Pipeline Company for the transmission of the piped natural gas purchased from parties other than Jiaxing Pipeline Company.

The New Natural Gas Framework Agreement has a duration of five years, in other words has a term longer than the requirement under Rule 14A.52 of the Listing Rules that the period of an agreement for continuing connected transactions must not exceed three years. The Directors consider that such relatively longer term is fair and reasonable and in the interest of the Company on the bases that the Group has been granted the long-term exclusive right to the operation and management of medium and low pressure piped gas, including sales of piped natural gas and liquefied natural gas to users by means of pipeline distribution in the Group's operating area in urban area and port area of Jiaying initially to 31 December 2032 and 30 April 2033, respectively, it is in line with industry practice for the Company to enter into a framework agreement of a longer term to ensure a stable supply of natural gas to the Group over a five-year period at a time, which could in turn secure a stable supply to the end-users of the natural gas.

The Directors (excluding the independent non-executive Directors who will render their views after considering the advice to be given by the independent financial adviser in respect of the New Natural Gas Framework Agreement and transactions contemplated thereunder (including the New Annual Caps)) consider that the New Natural Gas Framework Agreement has been entered into in the ordinary and usual course of business of the Group, and the terms of the New Natural Gas Framework Agreement and transactions contemplated thereunder (including the New Annual Caps) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Group is principally engaged in (i) the sales of gas, mainly piped natural gas, liquefied natural gas and liquefied petroleum gas in Jiaying, the PRC; (ii) the provision of construction and installation services; and (iii) other activities, including the provision of gas storage services, the provision of natural gas transportation services, the sale of vapour, electricity and construction materials, and the leasing of properties.

Jiaying Pipeline Company, a limited liability company established in the PRC, is principally engaged in building pipeline networks in Jiaying and supplies natural gas as an upstream supplier. Jiaying Pipeline Company is a direct wholly-owned subsidiary of City Development, a substantial Shareholder, which is wholly-owned by 浙江嘉興國有資本投資運營有限公司 (Zhejiang Jiaying State-owned Capital Investment Management Company Limited*), which is owned as to 4.0429% by 浙江省財務開發有限責任公司 (Zhejiang Financial Development Co., Ltd.*), a wholly-owned entity under 浙江省財政廳 (Zhejiang Provincial Department of Finance*), and as to 95.9571% by 嘉興市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Jiaying Municipal People's Government*) as at the date of this announcement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Jiaxing Pipeline Company is a direct wholly-owned subsidiary of City Development, a substantial Shareholder. As such, Jiaxing Pipeline Company is an associate of City Development, and hence a connected person of the Company pursuant to Rule 14A.13(1) of the Listing Rules. The transactions contemplated under the New Natural Gas Framework Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As the highest of the New Annual Caps for the transactions contemplated under the New Natural Gas Framework Agreement exceeds HK\$10 million and one or more of the applicable percentage ratios also exceed 5%, the New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors had a material interest in the New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) and had to abstain from voting on the relevant board resolution.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps). An independent financial adviser is expected to be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. As the New Natural Gas Framework Agreement has a term of five years, pursuant to Rule 14A.52 of the Listing Rules, the independent financial adviser shall also explain in the circular to be despatched to the Shareholders why the New Natural Gas Framework Agreement requires a longer period than three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

EGM

The New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) are subject to the approval by the Independent Shareholders by way of ordinary resolution at the EGM.

A circular containing, among other things, (i) details of the New Natural Gas Framework Agreement and the New Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of EGM, is expected to be despatched to the Shareholders on or before 31 August 2023 which is more than 15 business days after publication of this announcement as additional time is required for preparing and gathering the relevant information to be contained in the circular.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“City Development”	Jiaxing City Investment & Development Group Co., Ltd. (嘉興市城市投資發展集團有限公司), a state-owned enterprise established under the laws of the PRC, and a substantial Shareholder
“Company”	嘉興市燃氣集團股份有限公司 (JiaXing Gas Group Co., Ltd.*), a joint stock limited liability company established under the laws of the PRC, with its H Shares listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps), or any adjournment thereof
“Existing Master Supply Agreements”	the two existing master supply agreements the Group entered into with Jiaxing Pipeline Company on 16 June 2016 in relation to the supply of piped natural gas by Jiaxing Pipeline Company to the Group for a period up to 31 December 2025
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are issued, listed on the Stock Exchange, subscribed and traded in Hong Kong dollars
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all independent non-executive Directors, established to advise the Independent Shareholders in respect of the New Natural Gas Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps)
“Independent Shareholders”	shareholders other than City Development and its associates
“Jiaxing Pipeline Company”	嘉興市天然氣管網經營有限公司 (Jiaxing Natural Gas Pipeline Network Management Co., Ltd.*), a limited liability company established under the laws of the PRC, a direct wholly-owned subsidiary of City Development
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“New Annual Caps”	the proposed annual caps for the five years ending 31 December 2027 and the three months ending 31 March 2028 for transactions under the New Natural Gas Framework Agreement
“New Natural Gas Framework Agreement”	the natural gas framework agreement the Company entered into with Jiaxing Pipeline Company on 14 July 2023 in relation to the supply of natural gas and pipeline gas transmission services by Jiaxing Pipeline Company and/or its subsidiaries to the Group for a period from 1 April 2023 to 31 March 2028, in substitution for the Existing Master Supply Agreements
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)” has the meaning ascribed to it under the Listing Rules
“substantial Shareholder(s)” has the meaning ascribed to it under the Listing Rules
“%” per cent

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

Jiaying, the PRC, 14 July 2023

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

* *For identification purpose only*