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CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

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

(Stock Code: 1940)

CONTINUING CONNECTED TRANSACTION IN RELATION TO SERVICE AGREEMENT

Financial Adviser to the Company



THE SERVICE AGREEMENT

On 22 November 2023 (after trading hours), TTG, a wholly-owned subsidiary of the Company, and Tangshan High-strength entered into the Service Agreement, pursuant to which TTG shall provide the Services for the Tangshan High-strength Gas Plant during the Term.

LISTING RULES IMPLICATIONS

As at the date of this announcement, 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; and a subsidiary of HBIS. Tangshan High-strength is an indirect subsidiary of HBIS and therefore it is an associate of HBIS Company and a connected person of the Company. In light of the above, the transactions contemplated under the Service Agreement will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the annual caps for the Service Agreement is less than 5%, the transactions contemplated thereunder are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

On 1 October 2020, TTG, a wholly-owned subsidiary of the Company, entered into an operational agreement with Tangshan High-strength, under the terms and conditions of the Master Gas Products and Related Services Agreement, for the supply of industrial gas including but not limited to pipeline nitrogen and hydrogen from the TTG Headquarters Plant for a period of two years and three months, expiring on 31 December 2022 (the "**Operational Agreement**"). The Operational Agreement was subsequently renewed for a period of seven months, expiring on 31 July 2023.

HBIS Company had, on 19 August 2020, entered into an agreement in relation to its exit and relocation plan (the “**Exit and Relocation Plan**”) with the People’s Government of Tangshan. Pursuant to the agreement, HBIS Tangshan Branch ceased its iron productions on 2 September 2020 and, as a result, among others, the operations of the ironmaking branch company of TTG which served the HBIS Tangshan Branch was similarly ceased. The operations of the part of TTG Headquarters Plant which serves the cold rolling mill in the HBIS Tangshan Branch and Tangshan High-strength remained unchanged for the time being.

In response to the further implementation of the Exit and Relocation Plan, the Group suspended all operations at the TTG Headquarters Plant in mid-July 2023 (the “**Suspension**”). As at the date of this announcement, the TTG Headquarters Plant has been decommissioned and its assets shall be redeployed to other gas production facilities or sold by the Group as it sees fit (the “**Decommissioning**”).

Following the entry of the Exit and Relocation Plan, the Group had been exploring ways, including but not limited to the acquisition or the lease of a parcel of land of Tangshan High-strength to construct self-owned gas production and supply facilities, in order to continue the supply of industrial gas to Tangshan High-strength. However, since the industrial land of Tangshan High-strength is approved for non-chemical industrial use only, pursuant to the relevant laws and regulations of the PRC, TTG, being a hazardous chemicals manufacturing company, may not construct self-owned gas production and supply facilities on such land. In light of the above, in order to secure stable supply of industrial gases for its iron and steel manufacturing operations, Tangshan High-strength established the Tangshan High-strength Gas Plant with nitrogen and hydrogen production facilities, and approached TTG for the provision of the Services for the Tangshan High-strength Gas Plant.

THE SERVICE AGREEMENT

On 22 November 2023 (after trading hours), TTG, a wholly-owned subsidiary of the Company, and Tangshan High-strength entered into the Service Agreement, pursuant to which TTG shall provide the Services for the Tangshan High-strength Gas Plant during the Term.

Principal terms of the Service Agreement

Date

22 November 2023

Parties

- (a) TTG; and
- (b) Tangshan High-strength.

Services

TTG shall provide the Services, being technical support and management services for the Tangshan High-strength Gas Plant. The Services shall include managing the organisation and planning, equipment inspections, equipment maintenance, daily maintenance, safety, labour and personnel etc. in respect of the production and supply of the industrial gas products. TTG shall also be responsible for providing the personnel for the operation of the Tangshan High-strength Gas Plant. The costs of the required production materials, spare parts, equipment and materials; and the salaries, management and training of the personnel shall be borne by TTG.

Service Fees

For the provision of the Services, Tangshan High-strength shall pay TTG the Service Fees on a monthly basis during the Term. The Service Fees shall be calculated based on (i) the agreed Unit Prices of the respective industrial gas products as set out in the Service Agreement; and (ii) the actual volume of the respective industrial gas products supplied from the Tangshan High-strength Gas Plant to Tangshan High-strength for the relevant period during the Term.

The Unit Prices are:

- (i) RMB3.39 (equivalent to approximately HK\$3.76) per cubic metre of hydrogen; and
- (ii) RMB0.077 (equivalent to approximately HK\$0.085) per cubic metre of nitrogen.

The above Unit Prices have been determined based on the expected gross profit margin of TTG in respect of the Services, which shall be no less than the historical gross profit margins of TTG for the supply of industrial gases to Tangshan High-strength under the Operational Agreement of about 18.1%. The gross profit of the Services is calculated by deducting the cost of sales comprising labour, equipment maintenance, production safety and other expenses from the revenue generated from the Service Fees.

Term

The period is commencing from 22 November 2023 and ending on 31 December 2025. Upon the expiry of the Term, the Service Agreement may be renewed automatically by the Parties on the same terms and conditions, subject to the compliance of the Listing Rules.

Termination

The Service Agreement may be terminated prior to the expiration of the Term upon mutual agreement in writing by both parties or in certain circumstances by a party, including upon material default by the counterparty under the occurrence of the following events:

- (i) if the production of Tangshan High-strength is affected or its equipment is severely damaged or casualties are caused due to the violation of TTG, Tangshan High-strength has the right to terminate the Service Agreement;

- (ii) if difficulties are caused to the production organisation and planning of TTG due to the violation of Tangshan High-strength, and such difficulties cannot be resolved through negotiation, TTG has the right to terminate the Service Agreement; and
- (iii) if the payment of the Service Fees by Tangshan High-strength is (i) overdue for more than 15 business days; and (ii) remains unpaid for five business days after the issuance of an overdue payment notice by TTG, TTG has the right to terminate the Service Agreement.

Annual caps

It is expected that the annual caps for the Service Fees payable under the Service Agreement are as follows:

	<i>RMB</i>
For the year ending 31 December 2023 (“FY2023”)	4,000,000
For the year ending 31 December 2024 (“FY2024”)	16,700,000
For the year ending 31 December 2025 (“FY2025”)	18,300,000

The above annual caps represent the anticipated Service Fees which are determined based on:

- (i) the agreed Unit Prices, which have been determined on the basis described in the paragraph headed “*Service Fees*” above in this section;
- (ii) in respect of the annual cap for FY2023, the anticipated volume of gas used by Tangshan High-strength from the date of the Service Agreement and up to 31 December 2023 based on the production capacity of the Tangshan High-strength Gas Plant and the latest production plan from Tangshan High-strength for such period, which reflects the demand for industrial gas products;
- (iii) in respect of the annual cap for FY2024, the anticipated volume of gas used by Tangshan High-strength based on the production capacity of the Tangshan High-strength Gas Plant and the latest production plan of Tangshan High-strength for FY2024, which reflects the demand for industrial gas products;
- (iv) in respect of the annual cap for FY2025, an estimated 10% increase in the anticipated volume of gas used by Tangshan High-strength in FY2025 as compared to that in FY2024; and
- (v) a 15% buffer on top of the anticipated volumes of gas used, allowing for possible changes in operating hours of the Tangshan High-strength iron and steel production facilities allowed by the PRC government, which would affect the demand for industrial gas products from the Tangshan High-strength Gas Plant.

INFORMATION OF THE PARTIES

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 certain members of the HBIS Group.

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.

Tangshan High-strength

Tangshan High-strength is a company established under the laws of the PRC with limited liability, and a non-wholly owned subsidiary of HBIS Tangsteel, which is in turn a wholly-owned subsidiary of HBIS. Tangshan High-strength is principally engaged in the production and sales of cold reduced steel sheets, coated steel plates, silicon steel sheets and strips, and automobile bodies and their spare parts.

As at the date of this announcement, Tangshan High-strength is held as to approximately 77.35% and 22.65% by HBIS Tangsteel and CCB Financial Asset Investment Co., Ltd. (建信金融資產投資有限公司) (“**CCB Investment**”), respectively. CCB Investment is a wholly-owned subsidiary of China Construction Bank Corporation (中国建设银行股份有限公司), whose shares are listed on the Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939), respectively. To the best understanding, knowledge and belief of the Directors having made all reasonable enquiries, CCB Investment and China Construction Bank Corporation, are third parties independent of the Group and its connected persons.

HBIS Group

The HBIS Group is a state-owned iron and steel group in Hebei, the PRC. HBIS is a wholly-owned subsidiary of the Hebei Province SASAC. Members of the HBIS Group primarily produce and sell iron and steel products which are used in various industries. HBIS Company is one of the major operating subsidiaries of the HBIS Group and its shares are listed on the Shenzhen Stock Exchange (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.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SERVICE AGREEMENT

The Group is principally engaged in the production and supply of industrial gases in the PRC, including oxygen, nitrogen, argon, hydrogen, carbon dioxide and liquified natural gases.

The Group and the HBIS Group are long-standing partners. Ever since the first operating subsidiary of the Group was set up in 2007, the Group has been supplying industrial gases to HBIS Group in close proximity of the Tangshan area adjacent to the iron and steel production sites of the relevant members of HBIS Group as their exclusive industrial gas supplier within each of such iron and steel production sites. Prior to the Suspension, TTG was the exclusive pipeline industrial gas supplier for Tangshan High-strength.

In light of the Decommissioning, the Group did not renew the Operational Agreement upon its expiry in July 2023. On the other hand, the Group is now presented with the opportunity to maintain its long-standing cooperation with the HBIS Group. Under the new cooperation model with Tangshan High-strength, the Group (i) will have a new revenue stream from the provision of the Services to the Tangshan High-strength Gas Plant which is expected to generate a gross profit margin no less than the historical gross profit margins of TTG for the supply of industrial gases to Tangshan High-strength; (ii) is no longer required to commit large amounts of capital to establish and maintain gas production facilities to serve Tangshan High-strength; and (iii) may, from the Decommissioning of the TTG Headquarters Plant, recoup its capital investments through the disposal of the assets, or redeploy them to better effect in its other gas production facilities.

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

LISTING RULES IMPLICATIONS

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DEFINITIONS

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

“Board”	the board of Directors
“Company”	China Gas Industry Investment Holdings Co. Ltd., a company incorporated in the Cayman Islands with members’ limited liability, the Shares of which are listed on the Stock Exchange (stock code: 1940)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HBIS”	河鋼集團有限公司 (HBIS Group Co., Ltd.*), 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 Company”	河鋼股份有限公司 (HBIS Company Limited*), 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 non-wholly owned subsidiary of HBIS, and one of the Controlling Shareholders
“HBIS Group”	HBIS and its subsidiaries and their respective associates, but excluding the Group
“HBIS Tangshan Branch”	河鋼股份有限公司唐山分公司 (HBIS Company Limited Tangshan Branch Company*), a branch company of HBIS Company
“HBIS Tangsteel”	唐山鋼鐵集團有限責任公司 (Tangshan Iron and Steel Group Co., Ltd.), a company established under the laws of the PRC with limited liability, and a non-wholly owned subsidiary of HBIS
“Hebei Province SASAC”	河北省人民政府國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of The People’s Government of Hebei Province*)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined in the Listing Rules)
“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)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Gas Products and Related Services Agreement”	the framework agreement entered into on 17 June 2020 between the Company and HBIS, and renewed on 31 December 2022, in respect of, among others, the supply by the Group of gas products to members of the HBIS Group mainly for their production of iron and steel products
“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Service Agreement”	the agreement entered into between TTG and Tangshan High-strength on 22 November 2023, the details of which are set out in the section headed “ <i>The Service Agreement</i> ” in this announcement
“Service Fees”	the service fees payable in respect of the Services
“Services”	the technical support and management services in respect of the Tangshan High-strength Gas Plant to be provided by TTG to Tangshan High-strength pursuant to the Agreement, the details of which are set out in the paragraph headed “ <i>The Agreement – Services</i> ” in this announcement
“Share(s)”	ordinary share(s) of US\$0.0001 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“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 High-strength”	唐山鋼鐵集團高強汽車板有限公司 (Tangshan Iron and Steel Group High-strength Car Plate Co., Ltd.), a company established under the laws of the PRC with limited liability, and an indirect subsidiary of HBIS
“Tangshan High-strength Gas Plant”	the gas production and supply facility established and owned by Tangshan High-strength and constructed on its industrial land
“Term”	the term of the Gas Production Management Agreement
“TTG”	唐山唐鋼氣體有限公司 (Tangshan Tangsteel Gases Co. Ltd.), a wholly-owned subsidiary of the Company
“TTG Headquarters Plant”	the gas production and supply facility established, owned and operated by TTG, and located at No. 9, Binhe Road, Lubei District, Tangshan, Hebei Province
“Unit Prices”	the unit prices per cubic metre of hydrogen and nitrogen as set out in the Agreement
“US\$”	US dollars, the lawful currency of the United States
“%”	per cent.

By order of the Board
China Gas Industry Investment Holdings Co. Ltd.
Yao Li
Chairman and executive Director

Tangshan, 22 November 2023

As at the date of this announcement, the Board comprises: (1) Mr. YAO Li (Chairman) and Ms. GAO Guimin as the executive Directors; (2) Mr. ZHANG Aimin, Mr. LAI Yui and Ms. NG Shuk Ming as the non-executive Directors; and (3) Mr. SIU Chi Hung, Mr. XIAO Huan Wei and Ms. LI Chun Elsy as the independent non-executive Directors.

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB1.00 to HK\$1.11. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.

* *For identification purpose only*