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## RELATIONSHIP WITH OUR MAJOR SHAREHOLDERS

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### INDEPENDENCE FROM OUR MAJOR SHAREHOLDERS

On 23 March 2016, all of the Concert Parties, namely Taiding, Mr. Xu Songqiang (徐松強), Mr. Liu Zhenxiong (劉振雄), Ms. Xu Yanrui (許延瑞) and Ms. Xu Hua (徐華) entered into a concert party agreement with respect to their interest in the Company, which was subsequently renewed by the Concert Parties by entering into another concert party agreement on 16 March 2017, 3 January 2018 and 18 July 2019, respectively. Pursuant to these abovementioned concert party agreements, Mr. Xu Songqiang, Mr. Liu Zhenxiong, Ms. Xu Yanrui and Ms. Xu Hua, who held approximately 3.07%, 3.07%, 0.39% and 0.19% of the equity interest of our Company, respectively, throughout the Track Record Period and up to the Latest Practicable Date, agreed to delegate their voting rights at general meetings of our Company to Taiding, which held approximately 26.42% equity interest of our Company throughout the Track Record Period and up to the Latest Practicable Date, for FY2016, FY2017, FY2018, FY2019 and FY2020, respectively. Accordingly, the Concert Parties are deemed to be interested in the equity interests of each other. There was no change in the shareholdings of the Concert Parties in our Company throughout the Track Record Period and up to the Latest Practicable Date and their respective shareholdings in our Company are expected to remain unchanged up to immediately prior to completion of the [REDACTED]. The Concert Parties have entered into the concert party agreements with a view to consolidate control of our Company and exert greater influence on its management and operation. The Concert Parties believed that the entering into of concert party agreements with a term of one or two years would enable them to (i) have a better understanding as to the operational feasibility of the concert party arrangement, especially for the initial year(s) of the agreement; (ii) build up mutual trust and confidence among the Concert Parties; (iii) regularly evaluate the effectiveness of the concert party agreements in achieving the benefits of the concert party arrangement, and make necessary modifications to the terms thereof if needed; and (iv) allow flexibility in altering the composition to the concert party arrangement, if needed.

Mr. Liu Zhenxiong’s approximately 3.07% shareholding interests in our Company were subject to judiciary freeze as at the Latest Practicable Date. As advised by the PRC Legal Advisers, the judiciary freeze of Mr. Liu Zhenxiong’s shareholding interest held in our Company would not (i) affect the legal ownership of such interest by Mr. Liu Zhenxiong, subject to the disposal restriction; (ii) affect the voting rights of Mr. Liu Zhenxiong at the shareholders’ meeting of the Company; (iii) affect the validity or enforceability of the concert party agreements, and hence, the ownership continuity of our Company; (iv) result in any non-compliance of the [REDACTED] conditions of the Company or affect the issuance or floating of H Shares under the [REDACTED] under PRC laws and regulations; or (v) have any material adverse impact on the [REDACTED]. Please refer to note 8 to the chart setting out the shareholding and corporate structure of our Group immediately prior to the [REDACTED] under the section headed “History and Corporate Structure – Corporate Structure” in this document for details of the judiciary freeze.

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As at the Latest Practicable Date, the Concert Parties as the single largest group of Shareholders holds approximately 33.14% issued share capital of our Company, while City Development holds approximately 32.76% issued share capital of our Company. Immediately following completion of the [REDACTED] (and assuming that the [REDACTED] is not exercised at all), the Concert Parties will in aggregate control approximately [REDACTED] and City Development will hold approximately [REDACTED] of the total share capital of our Company. Accordingly, the Concert Parties will remain as our largest Shareholder and City Development as our second largest Shareholder after the completion of the [REDACTED], but will not be regarded as Controlling Shareholders.

Taiding is owned as to approximately 65% by Mr. Sun and 35% by Ms. Xu Lili (徐麗麗), the spouse of Mr. Sun. Mr. Sun is an executive Director and chairman of the Board. Mr. Xu Songqiang (徐松強) is our executive Director and Ms. Xu Yanrui (許延瑞) and Ms. Xu Hua (徐華) are our senior management. Please refer to the section headed “Directors, Supervisors, Senior Management and Employees” in this document for further information on Mr. Sun, Mr. Xu Songqiang, Ms. Xu Yanrui and Ms. Xu Hua’s work experiences.

City Development is a state-owned enterprise and solely owned by Zhejiang Jiaying State-owned Capital Investment Management Company Limited\* (浙江嘉興國有資本投資運營有限公司) and is indirectly wholly-owned by Jiaying State-owned Assets Supervision and Administration Commission (嘉興市國有資產監督管理委員會) as at the Latest Practicable Date.

None of our Major Shareholders has an interest in any business which competes or may compete with the business of our Group.

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Our Directors consider that our Group is capable of carrying on our business independently of our Major Shareholders and their respective associates (other than us) based on the following reasons:

### **Operational Independence**

#### ***Master Supply Agreements***

Jiaxing Pipeline Company is one of our major suppliers during the Track Record Period, and accounted for approximately 69.8%, 82.6% and 83.7% of our total cost of purchase during FY2017, FY2018 and FY2019, respectively. On 16 June 2016, we entered into the Master Supply Agreements with Jiaxing Pipeline Company, pursuant to which we shall purchase from Jiaxing Pipeline Company, and Jiaxing Pipeline Company shall sell to us, PNG in Jiaxing up to 31 December 2025. Please refer to the paragraphs headed "Continuing Connected Transactions – Non-exempted Continuing Connected Transactions – Supply of PNG by Jiaxing Pipeline Company to our Group" and "Business – Our Source of PNG Supply – Master Supply Agreements with Jiaxing Pipeline Company" in this document for details of the Master Supply Agreements.

Our Directors are of the view that the Master Supply Agreements would not give rise to undue reliance on Jiaxing Pipeline Company which impact our operational independence for the following reasons:

- (i) The natural gas supply industry in the PRC is highly regulated. Jiaxing Pipeline Company has been our sole direct supplier of PNG which, to the best knowledge of our Directors, is the only upstream supplier of PNG in Jiaxing and our pipeline network is connected to the pipeline network of Jiaxing Pipeline Company. The price at which we purchase PNG from Jiaxing Pipeline Company is determined in accordance with the price set by the Jiaxing Municipal People's Government.
- (ii) We are the largest PNG distributor in Jiaxing and are granted the exclusive right to sell and distribute PNG in our Operating Area pursuant to Concessions for an initial term of 25 years from 1 January 2008 to 31 December 2032 for Jiaxing Urban Operating Area and 25 years from 1 May 2008 to 30 April 2033 for Jiaxing Port Operating Area. The reliance between Jiaxing Pipeline Company and us are mutual and complementary;
- (iii) While Jiaxing Pipeline Company had been our sole direct PNG supplier during the Track Record Period, in the event of shortage of supply of PNG from Jiaxing Pipeline Company, we will supplement our PNG supply through the gasification of LNG we purchased from other suppliers;
- (iv) To the best knowledge of our Directors, Jiaxing Pipeline Company does not have its own source of PNG other than purchasing PNG from ZNGD, a state-owned enterprise in Zhejiang Province, and ZNGD will allocate PNG

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based on the planned purchase volume by different cities in Zhejiang Province. Jiaxing Pipeline Company is an intermediary which was designated as the upstream PNG supplier in the natural gas supply chain. Also, considering the basic necessity of natural gas, the PRC government and its controlled corporations generally will not allow natural gas distributors to suspend natural gas supply. We believe that we do not rely on Jiaxing Pipeline Company in a material aspect for a stable source of PNG; and

- (v) The purchase of PNG from Jiaxing Pipeline Company is routine in nature without any expertise and in the event that Jiaxing Pipeline Company no longer carry on its PNG supply business, there will be other comparable service provider to replace Jiaxing Pipeline Company for the provision of such services to the Group, or we will be able to source LNG from our Dushan Port Project after commencement of its operation.

### ***Pipeline Network Lease Agreements***

On 30 September 2019 and 31 December 2019, we entered into the Pipeline Network Lease Agreements with Jiaxing Pipeline Company, a direct wholly-owned subsidiary of City Development. Pursuant to the Pipeline Network Lease Agreements, Jiaxing Pipeline Company, as lessor, agreed to lease to our Group certain pipeline network in the Jiaxing Urban Operating Area. The lease terms are for a period from 1 September 2019 to 31 December 2032 and from 1 January 2019 to 31 December 2032, respectively. The annual rent payable under the Pipeline Network Lease Agreements is calculated at rate of 9.16% of the total investment cost of the leased pipeline network based on arm's length negotiation, taking into account factors including investment costs, depreciation of pipeline network assets, investment return for Jiaxing Pipeline Company and the corresponding repair and maintenance costs to be incurred by us, which is equivalent to approximately RMB16.4 million in aggregate per year.

According to IFRS 16, we recognised right-of-use assets in relation to the fixed term leases in form of an asset (representing the right to use the underlying assets during the lease term) and a corresponding lease liability (for the obligations to make future lease payment during the lease term). The Pipeline Network Lease Agreements is subject to a fixed term and is regarded as a one-off connected acquisition of capital asset (i.e. the leased pipeline) under the Listing Rules. As the Pipeline Network Lease Agreements was entered into prior to the [REDACTED] and the transaction thereunder is one-off in nature, the payment of rental contemplated thereunder will not be classified as a continuing connected transaction under Chapter 14A of the Listing Rules. Accordingly, the transaction under the Pipeline Network Lease Agreements will not be subject to any of the reporting, announcement, annual review and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Our Directors are of the view that the Pipeline Network Lease Agreements would not give rise to undue reliance on Jiaxing Pipeline Company which impacts our operational independence for the following reasons:

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- (i) We are the largest PNG distributor in Jiaxing and are granted the exclusive right to sell and distribute PNG in our Operating Area pursuant to Concessions for an initial term of 25 years from 1 January 2008 to 31 December 2032 for Jiaxing Urban Operating Area and 25 years from 1 May 2008 to 30 April 2033 for Jiaxing Port Operating Area. The reliance between Jiaxing Pipeline Company and us are mutual and complementary;

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- (ii) Jiaxing Pipeline Company is responsible for constructing urban pipeline network and gas facilities according to our business development plans and strategies, and we manage and arrange for construction of such pipeline network and gas facilities for Jiaxing Pipeline Company; and
- (iii) Pursuant to the terms of the Concessions, upon the completion of the construction of the pipelines and gas facilities Jiaxing Pipeline Company is bound to lease all of its invested urban pipeline network and gas facilities in the Jiaxing Urban Area to us for our use and operation of our PNG business.

The section headed "Continuing Connected Transactions" in this document sets out the continuing connected transactions between our Group and our Major Shareholders or their associates which will continue after the completion of the [REDACTED]. All such transactions are determined after arm's length negotiations and on normal commercial terms. Save for the continuing connected transactions set out in the section headed "Continuing Connected Transactions" in this document, our Directors do not expect that there will be any other transactions between our Group and our Major Shareholders or their respective close associates upon completion of the [REDACTED]. Notwithstanding that there are certain transactions with related persons and connected person of our Company, during the Track Record Period, we have full rights to make all decisions on, and to carry out our own business operations independently of our Major Shareholders and their respective close associates. Such continuing connected transactions will not have any negative impact on our operational independence from our Major Shareholders and their respective close associates after [REDACTED].

Moreover, our Company (through its subsidiaries) holds all relevant licences necessary to carry on its businesses, and has sufficient capital, equipment and employees to operate its business independently from our Major Shareholders. Our Group has independent access to sources of customers and suppliers. Our Group has also established a set of internal control procedures which facilitate the effective operation of our business.

Based on the above, our Directors are satisfied that we have been operating independently from our Major Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

### **Financial Independence**

During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Major Shareholders.

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To meet our working capital requirements, we had interest-bearing bank borrowings of approximately RMB178.5 million, RMB213.0 million and RMB193.4 million as at 31 December 2017, 2018 and 2019, respectively. Our banking facilities were not secured by our Major Shareholders. Please refer to the paragraph headed “Financial Information – Net Current Assets and Liabilities” in this document for details.

Amounts due to related parties from our Group amounted to approximately RMB198.0 million, RMB178.6 million and RMB171.4 million as at 31 December 2017, 2018 and 2019 respectively, among which approximately RMB8.0 million, RMB8.0 million, nil and nil were non-trade in nature, while the balance of which were trading in nature. All the amounts due to related parties which are non-trade in nature, if any, are expected to be settled before the [REDACTED], while all amounts due to related parties which are trading in nature will be settled in accordance with respective normal credit terms. For further details of related party transactions and balances, please refer to note 24 of the Accountants’ Report in Appendix I to this document.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, none of the Concert Parties, City Development, our Directors or their respective associates, had provided any other financial assistance or any guarantee, security or pledge for any of our banking facilities and other borrowings.

In light of the foregoing, our Directors are of the view that our Group is financially independent from and does not rely on our Major Shareholders and/or their associates for any financial assistance.

### Management Independence

Our Board comprises two executive Directors, three non-executive Directors and three independent non-executive Directors. The board of Supervisors of our Company consists of three members and we have six senior management.

Our executive Directors, Mr. Sun and Mr. Xu Songqiang (徐松強), and two of our senior management, namely Ms. Xu Yanrui (許延瑞) and Ms. Xu Hua (徐華), are the Concert Parties, and hence, one of our Major Shareholders. In addition, Mr. He Yujian (何宇健), our non-executive Director, was the chairman of the board of directors of Jiaxing Pipeline Company since March 2019.

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Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In such case, as we have eight Directors (including independent non-executive Directors), our Board has sufficient members to satisfy the quorum requirement. In addition, we have an independent management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Major Shareholders after the [REDACTED].