

## **CONNECTED TRANSACTIONS**

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We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED].

### **(A) CONNECTED PERSONS**

The following parties will become our connected persons and will have continuing connected transactions with our Group upon [REDACTED].

<b>Connected Person</b>	<b>Connected Relationship</b>
1. Mr. Luan Linjiang	Our substantial Shareholder, currently holds 33% of our total issued share capital and will hold approximately [REDACTED]% of our total issued share capital immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). He is also our executive Director and chairman of our Board. Hence, Mr. Luan Linjiang is our connected person. He is also the father of Mr. Luan Xiaolong.
2. Mr. Luan Xiaolong	Our Controlling Shareholder, currently holds 66% of our total issued share capital and will hold approximately [REDACTED]% of our total issued share capital immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). He is also our executive Director and chief executive officer. Hence, Mr. Luan Xiaolong is our connected person. He is also the son of Mr. Luan Linjiang.
3. Jiaoyun Market	Jiaoyun Market, a company established in the PRC with limited liability, is principally engaged in the operation and management of the Gaomi City Jiaoyun Market (高密市交運市場) and provision of rental and property management services in the PRC. It is directly held as to 99% by Mr. Luan Linjiang and 1% by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Linjiang and Mr. Luan Xiaolong and hence a connected person of our Company.
4. Jiaoyun Property	Jiaoyun Property, a company established in the PRC with limited liability, is principally engaged in real estate development in the PRC. It is directly held as to approximately 99.98% by Mr. Luan Linjiang and approximately 0.02% by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Linjiang and Mr. Luan Xiaolong and hence a connected person of our Company.
5. Guorui Real Estate	Guorui Real Estate, a company established in the PRC with limited liability, is principally engaged in real estate development in the PRC. It is indirectly wholly owned by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Xiaolong and hence a connected person of our Company.

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<u>Connected Person</u>	<u>Connected Relationship</u>
6. Shandong Shihua	Shandong Shihua, a company established in the PRC with limited liability, is principally engaged in the sale of natural gas in the PRC. It is a substantial shareholder of our subsidiary, Jiaoyun Shihua, and hence a connected person of our Company at the subsidiary level by virtue of its 30% equity interest in our subsidiary.

**(B) SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS**

<u>Nature of transaction</u>	<u>Applicable Listing Rule relating to the exemption</u>	<u>Waiver sought</u>
1. Jiaoyun Market Tenancy Agreement	14A.76(2)(a)	Waiver from strict compliance with the announcement requirement
2. Construction and Installation Services Framework Agreements	14A.76(2)(a)	Waiver from strict compliance with the announcement requirement
3. Subcontracting Framework Agreement	14A.76(2)(a)	Waiver from strict compliance with the announcement requirement
4. Natural Gas Sale and Purchase Agreements	14A.101	Waiver from strict compliance with the announcement requirement

**(C) CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENT**

We set out below a summary of the continuing connected transactions for our Company, which are, under the Listing Rules, subject to the reporting, annual review, announcement requirements but will be exempted from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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### 1. Jiaoyun Market Tenancy Agreement

#### *Description of the Transaction*

Jiaoyun Gas (a subsidiary of our Company) and Jiaoyun Market entered into a tenancy agreement dated 1 January 2022 (the “**Jiaoyun Market Tenancy Agreement**”), pursuant to which Jiaoyun Gas (as landlord) agreed to lease to Jiaoyun Market (as tenant) certain properties (the “**Jiaoyun Market Properties**”) at a fixed annual rent of RMB3,900,000 for a three-year term commencing from 1 January 2022 to 31 December 2024. The Jiaoyun Market Properties are used as a market with various stalls and booths for the public. Details of the Jiaoyun Market Properties are set out as follows:

<u>No.</u>	<u>Location</u>	<u>Type</u>	<u>Approximate gross floor area (sq.m.)</u>
1	No. 2268, West Shi’an Road, Mishui Street, Gaomi City, Shandong Province, the PRC	Building	7,682.6
2	Yard 1, No. 2268, West Shi’an Road, Mishui Street, Gaomi City, Shandong Province, the PRC	Building	2,201.1
3	Yard 2, No. 2268, West Shi’an Road, Mishui Street, Gaomi City, Shandong Province, the PRC	Building	8,496
4	West to Kangcheng Avenue and south to Shi’an Road, Gaomi City, Shandong Province, the PRC	Land	17,223.6
5	West to Kangcheng Avenue and south to Shi’an Road, Gaomi City, Shandong Province, the PRC	Land	17,391.5
6	West to Chang’an Avenue and south to Fada Freezer Factory, Gaomi City, Shandong Province, the PRC	Land	10,245.6

#### *Historical Transaction Amounts*

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total amount of rent (excluding value-added tax) paid by Jiaoyun Market to Jiaoyun Gas under the Jiaoyun Market Tenancy Agreement amounted to approximately RMB229,000, RMB229,000, RMB1,941,000 and RMB1,193,000, respectively. There has been an adjustment to the rent payable by Jiaoyun Market for the Jiaoyun Market Properties starting from 1 July 2021 to better align with the prevailing market rate for similar properties in the vicinity, therefore the transaction amount for the year ended 31 December 2021 was significantly higher than that for each of the years ended 31 December 2019 and 2020.

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### *Pricing Policy*

The annual rent to be charged by us pursuant to the Jiaoyun Market Tenancy Agreement was determined by the parties through arm’s length negotiations with reference to: (1) the rentable area of each of the Jiaoyun Market Properties leased to Jiaoyun Market under the Jiaoyun Market Tenancy Agreement; and (2) the then prevailing market rate for similar premises in the vicinity of the Jiaoyun Market Properties.

### *Annual Caps*

Our Directors estimate that the maximum annual rent (including value-added tax) payable by Jiaoyun Market to Jiaoyun Gas in relation to the Jiaoyun Market Tenancy Agreement for each of the years ending 31 December 2022, 2023 and 2024 will not exceed RMB3,900,000. In arriving at the above annual caps, our Directors have considered the fixed annual rent as agreed under the Jiaoyun Market Tenancy Agreement. Our Property Valuer has reviewed the terms of the Jiaoyun Market Tenancy Agreement and confirmed that (i) such terms are on normal commercial terms under prevailing market conditions and are considered as fair and reasonable; and (ii) the agreed rent payable by Jiaoyun Market under the Jiaoyun Market Tenancy Agreement is in line with the current market level.

### *Listing Rules Implications*

Since the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of the annual caps is expected to be more than 0.1% but less than 5%, the transactions under the Jiaoyun Market Tenancy Agreement with Jiaoyun Market will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **2. Construction and Installation Services Framework Agreements**

### *(a) Construction and Installation Services Framework Agreement with Jiaoyun Property*

#### *Description of the Transaction*

On 22 October 2022, Jiaoyun Gas (a subsidiary of our Company) entered into a pipeline construction and installation services framework agreement (the “**Construction and Installation Services Framework Agreement with Jiaoyun Property**”) with Jiaoyun Property, pursuant to which Jiaoyun Gas has agreed to provide services for installation of gas pipelines to our Group’s pipeline network (the “**Construction and Installation Services to Jiaoyun Property**”) for real estate development projects undertaken by Jiaoyun Property within our Operating Area, for a term commencing from the [REDACTED] to 31 December 2023. Such Construction and Installation Services to Jiaoyun Property comprise the procurement of appropriate gas pipeline, gas meters and relevant parts, the installation of such equipment and devices into the property building infrastructure, and the overall engineering design and feasibility planning as well as supervision of work. With respect to each gas pipeline installation project or work, Jiaoyun Property will, based on its actual operational needs, further enter into an individual agreement with us that prescribes the specific terms and conditions of each project or work.

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### *Historical Transaction Amounts*

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by Jiaoyun Property for the Construction and Installation Services to Jiaoyun Property provided by our Group amounted to approximately RMB449,000, RMB883,000, RMB692,000 and nil, respectively. For the four months ended 30 April 2022, no Construction and Installation Services to Jiaoyun Property have been carried out, as there was suspension of construction of the real estate development projects of Jiaoyun Property due to the cold weather in January 2022, Chinese New Year holidays in February 2022 and COVID-19 restrictions in March and April 2022. Construction of the real estate development projects resumed in May 2022, and is recovering in order to make up for the loss in progress earlier, with an aim of achieving the original progress target for the year.

### *Pricing Policy*

The fees to be charged by us for the provision of the Construction and Installation Services to Jiaoyun Property are determined on arm's length basis with reference to (i) historical fee rates; (ii) number of units in each real estate development project; (iii) cost of raw materials and labour needed for carrying out the Construction and Installation Services to Jiaoyun Property; and (iv) the comparison of the fee quote provided by us to Jiaoyun Property with the fee quotes provided by us to other customers which are Independent Third Parties and require similar services. The Construction and Installation Services Framework Agreement with Jiaoyun Property was entered into on normal commercial terms.

### *Annual Caps*

Our Directors estimate that the maximum annual fee (including value-added tax) payable by Jiaoyun Property in relation to the Construction and Installation Services to Jiaoyun Property to be provided by our Group under the Construction and Installation Services Framework Agreement with Jiaoyun Property for each of the years ending 31 December 2022 and 2023 will not exceed RMB2,041,000 and RMB4,059,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount as set out above;
- the fixed fee per household for multi-storey buildings charged by us for all property developers;
- the estimated growing demand for our Construction and Installation Services to Jiaoyun Property with reference to the estimated number, scale and progress of real estate development projects by Jiaoyun Property in the corresponding years, based on the construction plans filed with local government authorities; and
- the applicable value-added tax.

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The increase in the annual caps as compared with the historical transaction amounts for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 is mainly due to the increase in the estimated number of residential units that would complete construction in the corresponding years according to construction plans filed with local government authorities.

### *Reasons for the Transaction*

During the Track Record Period and up to the Latest Practicable Date, Jiaoyun Property principally engaged in real estate development projects in Gaomi City. Since we are the exclusive PNG supplier in our Operating Area in Gaomi City, during the Track Record Period, we provided the Construction and Installation Services to Jiaoyun Property in the ordinary and usual course of our construction and installation services business. We expect that we will continue to provide the Construction and Installation Services to Jiaoyun Property in its future real estate development projects in our ordinary and usual course of business after the [REDACTED].

### **(b) Construction and Installation Services Framework Agreement with Guorui Real Estate**

#### *Description of the Transaction*

On 22 October 2022, Jiaoyun Gas (a subsidiary of our Company) entered into a pipeline construction and installation services framework agreement (the “**Construction and Installation Services Framework Agreement with Guorui Real Estate**”) with Guorui Real Estate, pursuant to which Jiaoyun Gas, as supplier, has agreed to provide services for installation of gas pipelines to our Group’s pipeline network (the “**Construction and Installation Services to Guorui Real Estate**”) for real estate development projects undertaken by Guorui Real Estate within our Operating Area, for a term commencing from the [REDACTED] to 31 December 2022. Such Construction and Installation Services to Guorui Real Estate comprise the procurement of appropriate gas pipeline, gas meters and relevant parts, the installation of such equipment and devices into the property building infrastructure, and the overall engineering design and feasibility planning as well as supervision of work. With respect to each gas pipeline installation project or work, Guorui Real Estate will, based on its actual operational needs, further enter into an individual agreement with us that prescribes the specific terms and conditions of each project or work.

#### *Historical Transaction Amounts*

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by Guorui Real Estate for the Construction and Installation Services to Guorui Real Estate provided by our Group amounted to approximately RMB41,000, RMB472,000, RMB1,039,000 and nil, respectively. The Construction and Installation Services provided to Guorui Real Estate during the Track Record Period was in respect of one real estate development project. The transaction amount for the year ended 31 December 2021 was significantly higher than that for each of the years ended 31 December 2019 and 2020 due to the construction progress of that development project. During the year ended 31 December 2021, more units have completed construction and required the installation of gas pipelines; whereas during the years ended 31 December 2019 and 2020, the real estate development project was at a relatively earlier stage such that less installation work was required. For the four months ended 30 April 2022, no Construction and Installation Services to Guorui Real Estate have been carried out, as there was

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suspension of construction of the real estate development project of Guorui Real Estate due to the cold weather in January 2022, Chinese New Year holidays in February 2022 and COVID-19 restrictions in March and April 2022. However, construction of the real estate development project resumed in May 2022 and construction is recovering in order to make up for the loss in progress earlier, with an aim of achieving the original progress target for the year.

### *Pricing Policy*

The fees to be charged by us for the provision of the Construction and Installation Services to Guorui Real Estate were determined on arm's length basis with reference to (i) historical fee rates; (ii) number of units in each real estate development project; (iii) cost of raw materials and labour needed for carrying out the Construction and Installation Services to Guorui Real Estate; and (iv) the comparison of the fee quote provided by us to Guorui Real Estate with the fee quotes provided by us to other customers which are Independent Third Parties and require similar services. The Construction and Installation Services Framework Agreement with Guorui Real Estate was entered into on normal commercial terms.

### *Annual Caps*

Our Directors estimate that the maximum annual fee (including value-added tax) payable by Guorui Real Estate in relation to the Construction and Installation Services to Guorui Real Estate to be provided by our Group under the Construction and Installation Services Framework Agreement with Guorui Real Estate for the year ending 31 December 2022 will not exceed RMB2,150,000.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount as set out above;
- the fixed fee per household for multi-storey buildings charged by us for all property developers;
- the estimated demand for our Construction and Installation Services to Guorui Real Estate with reference to the estimated number, scale and progress of real estate development projects by Guorui Real Estate in the corresponding years, based on the construction plans filed with local government authorities; and
- the applicable value-added tax.

The increase in the annual caps as compared with the historical transaction amounts for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 is mainly due to the increase in the estimated number of residential units that would complete construction in the corresponding year according to construction plans filed with local government authorities.

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### *Reasons for the Transaction*

During the Track Record Period and up to the Latest Practicable Date, Guorui Real Estate principally engaged in real estate development projects in Gaomi City. Since we are the exclusive PNG supplier in our Operating Area in Gaomi City, during the Track Record Period, we provided the Construction and Installation Services to Guorui Real Estate in the ordinary and usual course of our construction and installation services business. The Construction and Installation Services to Guorui Real Estate during the Track Record Period was in respect of one real estate development project. We expect the last phase of this real estate development project to complete by 2022, after which we currently do not expect to further provide Construction and Installation Services to Guorui Real Estate.

### *Listing Rules Implications*

Since Jiaoyun Property and Guorui Real Estate are both associates of Mr. Luan Xiaolong and are connected persons of our Company, and the continuing connected transactions contemplated under the Construction and Installation Services Framework Agreement with Jiaoyun Property and the Construction and Installation Services Framework Agreement with Guorui Real Estate (collectively, the “**Construction and Installation Services Framework Agreements**”) are of same nature, the continuing connected transactions under the Construction and Installation Services Framework Agreements shall be aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. The aggregated annual caps are as follows:

	<b>For the year ending</b>	
	<b>31 December</b>	
	<b>2022</b>	<b>2023</b>
	<i>(RMB)</i>	<i>(RMB)</i>
Construction and Installation Services Framework Agreement with Jiaoyun Property	2,041,000	4,059,000
Construction and Installation Services Framework Agreement with Guorui Real Estate	<u>2,150,000</u>	<u>—</u>
<b>Total</b>	<u><b>4,191,000</b></u>	<u><b>4,059,000</b></u>

Since the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of the annual caps in relation to the transactions contemplated under the Construction and Installation Services Framework Agreements, as aggregated, is expected to be more than 0.1% but less than 5%, the transactions under the Construction and Installation Services Framework Agreements will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.



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### **3. Subcontracting Framework Agreement**

#### *Description of the Transaction*

On 22 October 2022, Jiaoyun Gas (a subsidiary of our Company) entered into a subcontracting framework agreement (the “**Subcontracting Framework Agreement**”) with Jiaoyun Property, pursuant to which we have engaged Jiaoyun Property as our subcontractor to provide construction workers to carry out certain natural gas supply facilities installation and gas meter replacement works to our customers (the “**Subcontracting Work**”), for a term commencing from the [REDACTED] to 31 December 2023. With respect to each natural gas supply facilities installation project or work, we will, based on our actual operational needs, further enter into an individual agreement with Jiaoyun Property that prescribes the specific terms and conditions of each project or work.

We generally require such Subcontracting Work for carrying out the following works: (1) construction work under the Clean Energy Projects where we construct new PNG end-user pipelines and connect these pipelines to our urban pipeline network for existing properties in line with the implementation of the coal-to-gas project (煤改氣工程); (2) installation works where property developers, residential or non-residential customers engage us to install natural gas supply facilities for their real estate developments or buildings; and (3) gas meter replacement works in line with our plan for rolling out our Goldcard Meters.

#### *Historical Transaction Amounts*

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by our Group for the Subcontracting Work provided by Jiaoyun Property amounted to approximately RMB386,000, RMB232,000, RMB2,877,000 and RMB1,279,000, respectively. The transaction amount for the year ended 31 December 2021 was significantly higher than that for each of the years ended 31 December 2019 and 2020 because (i) the labour fee of workers for installation per household have been adjusted in July 2021 to better align with the prevailing market rate and the prices charged by independent suppliers engaged, and (ii) the construction work under the Clean Energy Projects undertaken by Jiaoyun Property only commenced in 2021 and have not been carried out in 2019 and 2020.

#### *Pricing Policy*

The fees to be charged by Jiaoyun Property for the provision of the Subcontracting Work provided to our Group mainly represent labour fees for construction workers who carry out the construction work and the natural gas supply facilities installation and gas meter replacement works. Such fees were determined on arm’s length basis with reference to (i) historical fee rates; (ii) labour fee of workers needed for carrying out the Subcontracting Work; and (iii) the comparison of the fee quote provided by Jiaoyun Property to our Group with the fee quotes obtained from other suppliers which are Independent Third Parties and which provide similar services. When we procure such services in our ordinary and usual course of business, we select the most suitable supplier among those available for selection, which comprise connected persons and Independent Third Parties, taking into account the price, scope of services, experience, suitability, efficiency and qualification of the supplier to perform such services in a timely manner. The Subcontracting Framework Agreement was entered into on normal commercial terms.

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### *Annual Caps*

Our Directors estimate that the maximum annual fee (including value-added tax) payable by our Group in relation to the Subcontracting Work to be provided by Jiaoyun Property under the Subcontracting Framework Agreement for each of the years ending 31 December 2022 and 2023 will not exceed RMB2,383,000 and RMB2,663,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount as set out above;
- the estimated amount of construction work for existing properties in the Operating Area with reference to the estimated number of households in the areas for implementation of the Clean Energy Projects, and the labour fees of workers per household for such construction works;
- the estimated number of real estate development projects and buildings within our Operating Area, the corresponding number of residential and non-residential units in such projects, based on the construction plans filed with local government authorities, and labour fees of workers per household for such installation works;
- the estimated number of households which require replacement of existing gas meters with Goldcard Meters and labour fees of workers per household for such replacement works; and
- the applicable value-added tax.

The increase in the annual caps as compared with the historical transaction amounts for the years ended 31 December 2019 and 2020 is mainly due to (i) the adjustment of labour fee of workers for installation per household in July 2021 to better align with the prevailing market rate and the prices charged by independent suppliers engaged; (ii) the installation work for the Clean Energy Projects undertaken by Jiaoyun Property that only commenced in 2021 and have not been carried out in 2019 and 2020; and (iii) the gas meter replacement works to be undertaken by Jiaoyun Property which are expected to commence in 2023.

### *Reasons for the Transaction*

Since natural gas supply facilities installation works are labour intensive and require much manpower, we subcontract such work to external workers to carry out the actual installation. During the Track Record Period, we engaged Jiaoyun Property as our subcontractor to undertake such natural gas supply facilities installation and replacement work in the ordinary and usual course of our business. Given our stable and amicable working relationship with Jiaoyun Property, we expect to continue to engage Jiaoyun Property for the provision of the Subcontracting Work to us in our ordinary and usual course of business after the [REDACTED].

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### *Listing Rules Implications*

Since the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of the annual caps is expected to be more than 0.1% but less than 5%, the transactions under the Subcontracting Framework Agreement will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **4. Natural Gas Sale and Purchase Agreements**

##### *Description of the Transaction*

On 1 April 2020, Jiaoyun Gas (a subsidiary of our Company) entered into a natural gas sale and purchase agreement (the “**Master Natural Gas Sale and Purchase Agreement**”) with Shandong Shihua, pursuant to which Shandong Shihua agreed to supply PNG to Jiaoyun Gas for a term commencing from 1 April 2020 to 31 December 2025, which may be terminated by either party in the event of a material breach or the other party's failing to perform its obligations under the agreement and with 30 days' prior written notice. Jiaoyun Gas also entered into supplemental agreements (the “**Supplemental Agreements**”, together with the Master Natural Gas Sale and Purchase Agreement, the “**Natural Gas Sale and Purchase Agreements**”) annually with Shandong Shihua to prescribe the supply amount and price of PNG in accordance with the benchmark gate price for each year. For details, please refer to “Business — Procurement of PNG” in this document.

##### *Historical Transaction Amounts*

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by our Group under the Natural Gas Sale and Purchase Agreements amounted to approximately RMB168,609,000, RMB137,760,000, RMB177,517,000 and RMB70,739,000, respectively.

##### *Pricing Policy*

The fees to be charged by Shandong Shihua under the Natural Gas Sale and Purchase Agreements were determined with reference to the benchmark gate price set by the NDRC. According to the *Notice on Straightening the Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2018] No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)) issued by the NDRC on 25 May 2018, the PNG purchase price for both residential and non-residential usage is to be determined based on the benchmark gate price, and restricted to 120% of the benchmark gate price. According to the *Notice on Adjusting the Benchmark Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2019] No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格規[2019]562號)) issued by the NDRC on 27 March 2019, with effect from 1 April 2019, the benchmark gate prices of natural gas in Shandong Province was adjusted to RMB1,840 per 1,000 m<sup>3</sup>. Please refer to “Business — Sale of PNG — Pricing”, “Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas” and “Industry Overview — Analysis of the City Gas Supply

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Industry in Gaomi City” in this document for further information about the pricing of PNG in the PRC. The price at which we procure PNG from Shandong Shihua is prescribed annually in accordance with the benchmark gate price. The Natural Gas Sale and Purchase Agreements were entered into on normal commercial terms.

### *Annual Caps*

Our Directors estimate that the maximum annual fee (including value-added tax) payable by our Group under the Natural Gas Sale and Purchase Agreements for each of the years ending 31 December 2022, 2023, 2024 and 2025 will not exceed RMB213,950,000, RMB226,320,000, RMB228,382,000 and RMB230,443,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical sales volumes and transaction amounts;
- the purchase volume and prices for the year ending 31 December 2022 as preliminarily agreed with Shandong Shihua;
- the estimated demand for PNG of existing end-users in our Operating Area, with reference to the number of existing end-users in our Operating Area each year and the estimated usage volume per end-user;
- the estimated additional demand for PNG in our Operating Area, with reference to the estimated number of new end-users in our Operating Area each year and the estimated usage volume per end-user;
- the historical proportion of gas purchased from Shandong Shihua to our annual total gas procurement from all gas suppliers including Shandong Shihua and other independent third parties;
- the anticipated price level at which we can procure PNG with reference to the benchmark gate price; and
- the applicable value-added tax.

### *Reasons for the Transaction*

During the Track Record Period and up to the Latest Practicable Date, Shandong Shihua has been primarily engaged in the supply of natural gas in Shandong Province. According to CIC, there are only two natural gas suppliers in Gaomi City, being Shandong Shihua and PetroChina. Accordingly, throughout the Track Record Period, we procured PNG from Shandong Shihua in the ordinary and usual course of our sale of natural gas business. We expect that we will continue to procure PNG from Shandong Shihua in our ordinary and usual course of business after the [REDACTED].

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### *Listing Rules Implications*

The annual caps for the fees under the Natural Gas Sale and Purchase Agreements exceed HK\$10 million and the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules also exceeds 5%. However, as (i) Shandong Shihua is a connected person of our Company at the subsidiary level; (ii) our Board (including all independent non-executive Directors) has approved the Natural Gas Sale and Purchase Agreements and the transactions contemplated thereunder; and (iii) all independent non-executive Directors have confirmed that the terms of the Natural Gas Sale and Purchase Agreements are fair and reasonable, on normal commercial terms or better and in the interests of our Company and our Shareholders as a whole, the transactions under the Natural Gas Sale and Purchase Agreements will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders’ approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Under the requirements of Rule 14A.52 of the Listing Rules, any agreement for continuing connected transaction must not exceed three years except in special circumstances where the nature of the transaction requires it to be of a longer period.

Our Directors are of the view that it is normal business practice and appropriate for the Master Natural Gas Sale and Purchase Agreement to be for a duration of longer than three years for the following reasons:

- (a) according to CIC, it is not uncommon for such natural gas supply agreements to be for a longer duration due to the need for natural gas operators to secure a stable supply of natural gas;
- (b) as PNG is an important raw material for conduct of our business operations, it is valuable for us to secure such flexible and stable supply of natural gas for a longer period of time;
- (c) the price at which we procure PNG from Shandong Shihua is determined in accordance with the price set by the relevant local authorities; and
- (d) Shandong Shihua has been one of our major natural gas suppliers. A longer term could ensure a stable supply of natural gas to our Group, which in turn secure our supply of natural gas to our customers.

Based on the same reasons set out above, taking into account the Directors’ view as well as the Sole Sponsor’s independent due diligence, and after discussion with CIC and the senior management of the Company, the Sole Sponsor is of the view that (i) entering into the Master Natural Gas Sale and Purchase Agreement allows our Group to secure stable supply of natural gas and continuation of its existing business relationship with Shandong Shihua for the sake of our Group’s ordinary and usual course of business in sale of natural gas; (ii) the terms of the Master Natural Gas Sale and Purchase Agreement are fair and reasonable, are in the interest of our Company and our Shareholders as a whole; (iii) as advised by CIC, it is normal business practice for downstream natural gas distributors to enter into agreements of similar nature of natural gas supply to be of duration of more than three years; (iv) such business and contractual arrangements are witnessed by some listed companies on the

## **CONNECTED TRANSACTIONS**

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Stock Exchange with similar business nature like our Group; and (v) the terms of the Master Natural Gas Sale and Purchase Agreement are comparable to similar long-term gas supply agreements of the aforesaid comparable listed companies on the Stock Exchange based on the disclosure or public information available of such companies.

### **(D) APPLICATION FOR WAIVER**

The transactions described under “— (C) Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” in this section constitute our continuing connected transactions under the Listing Rules, which are subject to the reporting, annual review, announcement requirements but will be exempted from the circular and independent Shareholders’ approval requirements of the Listing Rules.

As these continuing connected transactions are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing and recurring basis and are expected to extend over a period of time, our Directors are of the view that compliance with the announcement requirement under Rule 14A.35 of the Listing Rules would impose unnecessary administrative costs and burden to our Group and would at times be impracticable.

Accordingly, pursuant to Rules 14A.102 and 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted], a waiver exempting us from strict compliance with the announcement requirements of the Listing Rules in respect of the continuing connected transactions, subject to the condition that the aggregate values of such continuing connected transactions for each financial year not exceeding the relevant amounts set forth in the respective annual caps (as stated above).

### **(E) DIRECTORS’ VIEWS**

Our Directors (including our independent non-executive Directors) consider that: (a) all the continuing connected transactions described under “— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” in this section have been entered into, and will be carried out: (i) in the ordinary and usual course of our business, (ii) on normal commercial terms or better and (iii) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (b) the annual caps of each of the continuing connected transactions under “— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” in this section are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

**CONNECTED TRANSACTIONS**

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**(F) SOLE SPONSOR’S VIEW**

The Sole Sponsor has (i) reviewed the relevant documents and information provided by our Group, (ii) obtained necessary representations and confirmation from our Company and our Directors, and (iii) participated in the due diligence and discussions with the management of our Company in respect of the continuing connected transactions described under this section.

Based on the above, the Sole Sponsor is of the view that: (a) the continuing connected transactions described under “— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement” in this section have been entered into in the ordinary and usual course of the business of our Company, on normal commercial terms or better, are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (b) the annual cap amounts for each of the continuing connected transactions described under “— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but exempt from the Independent Shareholders’ Approval Requirement” in this section are fair and reasonable and in the interests of our Company and our Shareholders as a whole.