
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Tianjin Jinran Public Utilities Company Limited**, you should at once hand this circular and the accompanying form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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天津津燃公用事業股份有限公司

Tianjin Jinran Public Utilities Company Limited

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

(Stock Code: 01265)

**RENEWAL OF CONTINUING CONNECTED TRANSACTION
IN RELATION TO GAS SUPPLY**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



Gram Capital Limited
嘉林資本有限公司

A letter from the Board dated 11 December 2019 is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee is set out on page 16 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 30 of this circular.

The notice of the EGM, the reply slip for the EGM and the proxy form have been published and despatched to the Shareholders on 14 November 2019.

Whether or not you are able to attend the EGM, you are reminded to complete the proxy form, in accordance with the instructions printed thereon and send the proxy form to the office of the Company at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC (for holders of Domestic Shares), or to the office of the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as practicable and in any event not later than 24 hours before the time appointed for holding of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any adjourned meeting(s) should you so wish.

You are also reminded to complete and sign the reply slip (if you are entitled to attend the EGM) and return the signed slip to the Company's office in the PRC at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC on or before 10 December 2019 (Tuesday) in accordance with the instructions printed thereon.

11 December 2019

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	16
Letter from Gram Capital	17
Appendix – General Information	31

DEFINITIONS

The following words and phrases used in this circular have the same meanings set out below unless the context requires otherwise:

“2019 Gas Supply Contract”	the gas supply contract dated 26 April 2019 and entered into between the Company and Jinran China Resources in respect of the supply of natural gas by Jinran China Resources to the Company for the year ending 31 December 2019
“2020 Gas Supply Contract”	the conditional gas supply contract dated 11 November 2019 and entered into between the Company and Jinran China Resources in respect of the supply of natural gas by Jinran China Resources to the Company for the year ending 31 December 2020
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	天津津燃公用事業股份有限公司 (Tianjin Jinran Public Utilities Company Limited), a joint stock limited company incorporated in the PRC, whose H shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuation of Gas Supply”	the supply of natural gas by Jinran China Resources to the Company for the year ending 31 December 2020, in accordance with the 2020 Gas Supply Contract, details of which are set out in this circular
“Contractual Amount”	the amount of gas actually supplied to the Company by Jinran China Resources in the corresponding month in 2019, times the total amount of gas supplied to Jinran China Resources by its contractual source in the corresponding month of the year 2020 divided by the total amount of gas supplied to Jinran China Resources by its contractual source in the corresponding month of year 2019
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Domestic Share(s)”	ordinary domestic share(s) of nominal value of RMB0.10 each in the registered capital of the Company which are subscribed for in RMB
“EGM”	the extraordinary general meeting of the Company to be convened and held at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC for the purpose of considering, and if thought fit, approving the Continuation of Gas Supply and the 2020 Gas Supply Contract
“Gas Purchase Price”	the price per cubic metre at which Jinran China Resources purchases the natural gas from its supplier
“Gas Sourcing Price”	the monthly price per cubic metre at which the Company sources its natural gas from Jinran China Resources
“Gas Supply”	the supply of natural gas by Jinran China Resources to the Company
“Gas Volume”	volume of natural gas purchased by the Group from Jinran China Resources
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2020 Gas Supply Contract and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares in the ordinary share capital of the Company with a par value of RMB0.10 each, which are listed on main board of the Stock Exchange
“Independent Board Committee”	the independent board committee of the Company comprising of Mr. Zhang Ying Hua, Mr. Yu Jian Jun and Mr. Guo Jia Li, the independent non-executive Directors
“Independent Shareholders”	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolution(s) approving the 2020 Gas Supply Contract

DEFINITIONS

“Independent Third Party(ies)”	third party(ies) who are independent of and are not connected with the Company and its connected persons
“Jinran China Resources”	津燃華潤燃氣有限公司 (Jinran China Resources Gas Co., Ltd*), a company established in the PRC with limited liability
“Latest Practicable Date”	9 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Contractual Amount”	the amount of gas actually supplied to the Company by Jinran China Resources that exceeds the Contractual Amount
“Non-residential Gas Ratio”	the Contractual Amount of gas being classified as for Non-residential Users and supplied by the Company to its downstream customers, divided by the total Contractual Amount of gas being supplied by the Company to its downstream customers in the relevant month
“Non-residential Users”	general commercial and industrial users, users for supply of central heating and users other than Residential Users
“normal commercial terms or better”	has the meaning ascribed to it in the Listing Rules
“Prepayment”	the prepayment payable by the Company to Jinran China Resources, details of which is set out in the paragraph headed “Settlement and prepayment” in this circular
“Pricing Mechanism”	the pricing mechanism to calculate the Gas Sourcing Price specified in the 2020 Gas Supply Contract, details of which are set out in the paragraph headed “Pricing Policy” in this circular
“PRC”	The People’s Republic of China and for the purpose of this circular, does not include the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

DEFINITIONS

“Residential Gas Ratio”	the Contractual Amount of gas being classified as for Residential Users and supplied by the Company to its downstream customers, divided by the total Contractual Amount of gas being supplied by the Company to its downstream customers in the relevant month
“Residential Users”	residential users, educational institutions, student residences, elderly welfare institutions, urban and rural community neighbourhood public service facilities, and religion service providers
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended from time to time)
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Gas”	天津市燃氣集團有限公司 (Tianjin Gas Group Company Limited*), a state-owned enterprise established in the PRC with limited liability

In this circular, the English names of the PRC entities are translation of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

** For identification purpose only*

LETTER FROM THE BOARD



天津津燃公用事業股份有限公司

Tianjin Jinran Public Utilities Company Limited

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

(Stock Code: 01265)

Executive Directors:

Mr. Zhao Wei (*Chairman*)

Ms. Tang Jie

Mr. Wang Quan Hong

Non-executive Directors:

Mr. Hou Shuang Jiang

Mr. Wang Jin

Mr. Zhao Heng Hai

Independent Non-executive Directors:

Mr. Zhang Ying Hua

Mr. Yu Jian Jun

Mr. Guo Jia Li

Legal Address:

Weishan Road

Chang Qing Science

Industry and Trade Park

Jinnan District, Tianjin, PRC

*Principal Place of Business
in the PRC:*

Floor 9, Gangao Tower

No. 18 Zhengzhou Road

Heping District

Tianjin, PRC

11 December 2019

To Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY

INTRODUCTION

Reference is made to the announcements of the Company dated 26 April 2019 and 2 August 2019, and the circular of the Company dated 3 June 2019 concerning the continuing connected transaction of the Company in relation to the Gas Supply contemplated under the 2019 Gas Supply Contract entered into between Jinran China Resources and the Company.

As the 2019 Gas Supply Contract will be expired on 31 December 2019, on 11 November 2019, the Company and Jinran China Resources entered into the 2020 Gas Supply Contract for the period from 1 January 2020 to 31 December 2020.

The 2020 Gas Supply Contract shall take effect upon the Independent Shareholders' approval in the EGM.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Continuation of Gas Supply and the 2020 Gas Supply Contract; (ii) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the Continuation of Gas Supply and the 2020 Gas Supply Contract; (iii) a letter from Gram Capital to the Independent Board Committee and the Independent Shareholders containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuation of Gas Supply and the 2020 Gas Supply Contract; and (iv) other information as required by the Listing Rules.

CONTINUATION OF GAS SUPPLY AND 2020 GAS SUPPLY CONTRACT

Date of entering into the 2020 Gas Supply Contract

11 November 2019

Contracting parties

Supplier : Jinran China Resources

Purchaser : The Company

As at the Latest Practicable Date, Jinran China Resources is owned as to 51% by Tianjin Gas, which is the controlling shareholder of the Company, holding approximately 70.54% of the issued shares of the Company.

Major terms of the 2020 Gas Supply Contract

Condition Precedents

The 2020 Gas Supply Contract shall be effective upon the Independent Shareholders' approval on the Continuation of Gas Supply in the EGM.

Both parties shall ensure that the 2020 Gas Supply Contract shall take effect before 31 December 2019. If the 2020 Gas Supply Contract fails to take effect before 31 December 2019 due to the negligence of a party in performing the procedures of decision-making and approval (including but not limited to Jinran China Resources performing the procedures in relation to approval from the board of directors of Jinran China Resources, and the Company performing the procedures in relation to approvals from the Board and the Independent Shareholders and completion of other procedures as required by the Stock Exchange), the defaulting party shall compensate the other party against any loss of the other party incurred thereof (including but not limited to interest and finance costs).

LETTER FROM THE BOARD

Pricing Policy

Pursuant to the 2020 Gas Supply Contract, Jinran China Resources has agreed to supply to the Company and the Company has agreed to purchase natural gas from Jinran China Resources at the Gas Sourcing Price as follows (the “**Pricing Mechanism**”):

1. The Gas Sourcing Price for the Contractual Amount for the year ending 31 December 2020 will be adjusted monthly based on the Gas Sourcing Price of that previous month in the following manner ^{Note}:

Adjustment needed for the Gas Sourcing Price for Contractual Amount = (the Gas Purchase Price for Contractual Amount attributed to Residential Users for the month – the Gas Purchase Price for Contractual Amount attributed to Residential Users for the previous month) x Residential Gas Ratio of the Contractual Amount + (the Gas Purchase Price for Contractual Amount attributed to Non-residential Users for the month – the Gas Purchase Price for Contractual Amount attributed to Non-residential Users for the previous month) x Non-residential Gas Ratio of the Contractual Amount

Residential Gas Ratio of the Contractual Amount = The Contractual Amount of gas being classified for Residential Users and supplied by the Company to its downstream customers, divided by the total Contractual Amount of gas being supplied by the Company to its downstream customers in the month

Non-residential Gas Ratio of the Contractual Amount = The Contractual Amount of gas being classified as for Non-residential Users and supplied by the Company to its downstream customers, divided by the total Contractual Amount of gas being supplied by the Company to its downstream customers in the month

Contractual Amount = The amount of gas actually supplied to the Company by Jinran China Resources the corresponding month in 2019, times the total amount of gas supplied to Jinran China Resources by its contractual source in the corresponding month of the year 2020 divided by the total amount of gas supplied to Jinran China Resources by its contractual source in the corresponding month of year 2019.

Note: The Gas Sourcing Price for the Contractual Amount for January 2020 will be adjusted based on the Gas Sourcing Price of December 2019 in the manner set out above.

LETTER FROM THE BOARD

2. The Gas Sourcing Price for Non-Contractual Amount will be determined as follows:

Gas Sourcing Price for Non-Contractual Amount = Gas Purchase Price for Non-Contractual Amount + RMB0.12 per cubic metre. Jinran China Resources is obliged to present to the Company the proof of the actual Gas Purchase Price for Non-Contractual Amount.

Non-Contractual Amount = The amount of gas actually supplied to the Company by Jinran China Resources that exceeds the Contractual Amount.

3. Notwithstanding the aforesaid pricing mechanism, should there be a change in the applicable laws and regulations under which the Gas Sourcing Price is mandated by the PRC government or authorities, the mandated price shall prevail.

Settlement and prepayment

The Company shall pay Jinran China Resources for the gas supplied each month and the relevant amounts payable are calculated on the basis of the actual consumption of natural gas by the Company during the month and the discrepancy in the total volume transported (caused by minute leakage during transportation and/or the accuracy of the metre reading, if any) of 3%.

The Company shall settle the gas fee incurred for each month within the two working days upon receipt of the settlement bill and invoice in the following month.

For gas fee incurred in November and December, the Company will settle 70% of the gas fee incurred for the relevant month. The Company shall verify the settlement proof in respect of the upstream sourcing price and the Gas Sourcing Price within two working days upon receipt of the settlement bill and invoice. The Company shall then reflect in writing the verification outcome to Jinran China Resources. The Company shall pay the balance of the gas fee (30%) to Jinran China Resources within two working days upon confirmation of the amount payable by both parties.

LETTER FROM THE BOARD

The Company shall pay a prepayment (the “**Prepayment**”) to Jinran China Resources within five working days upon the 2020 Gas Supply Contract taking effect, which is calculated in the following manner:

Prepayment = Total sum of the transaction amount of the Gas Supply for the year 2019/365 x 30

Jinran China Resources shall have the right to offset the outstanding gas fees by the Prepayment. If the Company fails to pay the Prepayment or the amount of the Prepayment is insufficient to cover the outstanding amount payable by the Company to Jinran China Resources, Jinran China Resources shall have the right to, after serving notification three working days in advance, reduce or suspend the delivery of natural gas until the outstanding payment has been settled.

If the Company fails to settle the Prepayment or any gas fees payable for two instalments, or based on Jinran China Resources’ judgement in good faith, it is likely that the Company will be in default in payment of the gas fees, Jinran China Resources shall have the right to demand the Company to provide guarantee.

Upon expiry of the 2020 Gas Supply Contract, the Prepayment shall be refunded to the Group by Jinran China Resources or used to offset the gas fees for the relevant month(s) at the end of 2020.

The Prepayment under the 2019 Gas Supply Contract will be used to offset the gas fee for December 2019.

Having considered that the Prepayment (i) is a condition to the 2020 Gas Supply Contract, which is required by Jinran China Resources (and Jinran China Resources is the sole wholesale supplier of natural gas in the Tianjin City and to the Company) to fulfill their prepayment obligations with the ultimate supplier; (ii) may be used to offset the outstanding gas fees; and (iii) is approximately one-month fee for total transaction amount of the Gas Supply for the year ending 31 December 2019, the Board is of the view that the Prepayment is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Annual Cap

In any event, the total transaction amount (tax inclusive) under the 2020 Gas Supply Contract for the year ending 31 December 2020 shall not exceed RMB1,879,000,000.

LETTER FROM THE BOARD

Basis of Determining the Annual Cap and the Pricing Mechanism

In arriving at the aforesaid annual cap of natural gas supply, the Company has considered, among others, the following factors: (i) the historical figures of transactions with Jinran China Resources for Gas Supply; (ii) the increase in the actual Gas Volume for the last three years and the estimated Gas Volume for the year ending 31 December 2019; (iii) the potential increase of the Gas Sourcing Price (including, but not limited to, the increase during the winter months in 2020 and for the Non-residential Users during the non-heating season in 2020); and (iv) a small additional buffer in case of unexpected fluctuation.

(i) Historical figures of the transactions with Jinran China Resources

The table below shows (i) the historical annual caps for the year ended 31 December 2018 and the year ending 31 December 2019; (ii) the actual transaction amount of natural gas purchased by the Group from Jinran China Resources for the year ended 31 December 2018 and the nine months ended 30 September 2019; and (iii) the estimated transaction amount of natural gas purchased by the Group from Jinran China Resources for the year ending 31 December 2019:

	For the year ended 31 December			For the nine months ended	For the year ending
	2016	2017	2018	30 September	31 December
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Historical annual cap (tax inclusive)	1,788	1,967	1,700.0	Not applicable	1,915.2
Actual transaction amount (tax exclusive)	905.2	1,145.2	1,229.9	800.03	Not applicable
(approximate)	(audited)	(audited)	(audited)	(unaudited)	
Actual transaction amount (tax inclusive)					
(approximate) (unaudited)	1,035.6	1,284.5	1,365.2	1,004.7	Not applicable
Estimated transaction amount (tax inclusive)	Not applicable	Not applicable	Not applicable	Not applicable	1,487.8

The estimated transaction amount of natural gas purchased by the Group from Jinran China Resources for the year ending 31 December 2019 is based on the estimated increase in the Gas Volume for the year ending 31 December 2019 and the average Gas Sourcing Price for the nine months ended 30 September 2019.

The estimated Gas Volume for the year ending 31 December 2019 represents the sum of the total Gas Volume for the nine months ended 30 September 2019 and the estimated Gas Volume for the three months ending 31 December 2019. In estimating the Gas Volume for three months ending 31 December 2019, the Company has taken into account of the actual Gas Volume in September 2019 and the expected customers' demand, in particular, the possible significant increase in demand of natural gas from October 2019 by one of the Company's major customers. To the best of the Directors' knowledge, the said customer has resumed its production after its cooperation with new strategic investor(s) since October 2019, and therefore is expected to increase its demand of natural gas accordingly.

LETTER FROM THE BOARD

(ii) Estimated increase in Gas Volume

The estimated increase in Gas Volume for the year ending 31 December 2020 is 10%, which is based on the average increase in actual Gas Volume for the three years ended 31 December 2018 and the estimated Gas Volume for the year ending 31 December 2019 (being approximately 9.6%). The estimated Gas Volume for the three months ending 31 December 2019 is based on the Gas Volume for the three months ended 31 December 2018.

(iii) Potential increase of Gas Sourcing Price

The Company estimated that there is a potential increase of an average of 9% on the overall Gas Sourcing Price for the year 2020 (including, but not limited to, the increase during the winter months in 2020 and for the Non-residential Users during the non-heating season in 2020), which is based on the Gas Sourcing Price during the three years ended 31 December 2018 and the nine months ended 30 September 2019. The increase in average Gas Sourcing Price (tax exclusive) for the nine months ended 30 September 2019 is approximately 8.34% as compared with that for the year ended 31 December 2018.

(iv) Additional buffer

Taking into account of (a) possible price adjustment on the Gas Purchase Price, (b) the purchase of Non-Contractual Amount and (c) the impact of environmental protection strategy of the PRC government, the Board is of the view that a buffer of approximately 5.3% shall be added to the estimated demand of natural gas for the year ending 31 December 2020.

In arriving at the Pricing Mechanism, the Company has considered (i) the average Gas Sourcing Price for the nine months ended 30 September 2019 (being approximately RMB2.24 (tax exclusive)); (ii) the sourcing prices at which, and pricing mechanism and payment method arrangements with which, Jinran China Resources sourced its natural gas from the government appointed and regulated ultimate supplier of natural gas in the Tianjin region like Petrochina Company Limited (中國石油天然氣股份有限公司); (iii) the expected fluctuations of such upstream sourcing prices in 2020 based on the Company and Directors' expertise in the industry; (iv) the fact that Jinran China Resources is the only licensed natural gas wholesaler capable of fulfilling the Company's demand on natural gas and the Company's reliance on Jinran China Resources as an industry norm in Tianjin as a result of the laws and regulations of the PRC; and (v) the alternative legal means available to the Company to source the natural gas needed and the unit price of gas being substantially higher than the Gas Sourcing Price pursuant to the Pricing Mechanism.

Having considered the aforesaid factors, the Directors (including the independent non-executive Directors after considering the advice of Gram Capital) consider that the abovementioned annual cap and the Pricing Mechanism are fair and reasonable.

LETTER FROM THE BOARD

INTERNAL CONTROLS

To facilitate the pricing policy and the Continuation of Gas Supply in accordance with the 2020 Gas Supply Contract and the application laws and regulations as a whole, the Company has adopted the following internal control procedures:

1. The sales department of the Company pays close attention to the laws and regulations promulgated by the Tianjin Municipal Government from time to time that is applicable to the Gas Sourcing Price in order to ensure that the Continuation of Gas Supply is conducted in accordance with mandated prices, if any;
2. The sales department of the Company reviews the invoices or any proof of the actual Gas Purchase Price presented by Jinran China Resources each month. If the Company finds the document presented by Jinran China Resources unacceptable as a valid proof of the actual Gas Purchase Price, the Company will withhold the payment of the Gas Sourcing Price for the relevant month;
3. The sales department of the Company verifies the Residential Gas Ratio and Non-residential Gas Ratio each month;
4. The internal audit department of the Company verifies the Gas Sourcing Price for each month according to the Pricing Mechanism;
5. The finance department of the Company verifies the adjusted Gas Sourcing Price with the amount of gas supplied in each month;
6. Before payment of the Gas Sourcing Price to Jinran China Resources each month, the sales department of the Company compares the amount of gas actually supplied with the corresponding month last year to see if the amount of gas supplied is in excess of the Contractual Amount for each month;
7. The finance department of the Company monthly monitors the aggregated invoiced amount arose from the transactions with Jinran China Resources in order to ensure that such aggregated amount will not exceed the applicable annual cap set for the connected transaction concerned. Should such aggregated amount exceed 75% of the applicable annual cap, starting from the month concerned, the finance department of the Company will estimate, by the end of each month, the volume of natural gas to be purchased from Jinran China Resources in the next month based on the volume of natural gas actually purchased from Jinran China Resources monthly throughout the year. The finance department of the Company will then calculate the expected transaction amount of the next month according to the latest Gas Sourcing Price and notify the general manager of the Company of such expected transaction amount and the aggregated transaction amount. The Board shall eventually determine if the annual cap should be revised upward in accordance with the Listing Rules; and

LETTER FROM THE BOARD

8. The independent non-executive Directors will review the Continuation of Gas Supply pursuant to Rule 14A.55 of the Listing Rules, and the auditors of the Company will also conduct an annual review on the pricing terms and annual caps under the 2020 Gas Supply Contract.

REASONS FOR AND BENEFITS OF ENTERING THE 2020 GAS SUPPLY CONTRACT

Jinran China Resources is the only natural gas wholesaler in the districts in Tianjin in which the Company operates.

The Directors (including the independent non-executive Directors after considering the advice of Gram Capital) consider that the 2020 Gas Supply Contract is entered into in the ordinary and usual course of business of the Group after arm's length negotiations between the Company and Jinran China Resources and the terms of the 2020 Gas Supply Contract and the proposed annual cap are on normal commercial terms or better which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE GROUP

The Group's principal activities are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas in the PRC.

INFORMATION ABOUT JINRAN CHINA RESOURCES

Jinran China Resources is held by Tianjin Gas (a controlling shareholder of the Company) and China Resources Gas Group Limited (a company listed on the main board of the Stock Exchange, Stock Code: 1193) as to 51% and 49%, respectively, and is the sole wholesale supplier of natural gas in the Tianjin City and part of the rural areas of Tianjin. The principal business of Jinran China Resources comprises operation of gas pipeline infrastructure, supply of natural gas to other gas supply operators in the Tianjin area, the sales and distribution of piped gas to end users and the sale of gas appliances and equipment in connection with gas supply in certain areas in Tianjin.

The ultimate beneficial owner of Tianjin Gas is the State-owned Assets Supervision and Administration Commission of the Tianjin Municipal People's Government, a special commission directly under the Tianjin Municipal People's Government.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Jinran China Resources is held as to 51% by Tianjin Gas, a controlling shareholder of the Company holding 1,297,547,800 Domestic Shares, representing approximately 70.54% of the total issued shares of the Company. Jinran China Resources is hence a connected person of the Company, and the entering into of the 2020 Gas Supply Contract between Jinran China Resources and the Company constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) for the annual cap for the 2020 Gas Supply Contract for the year ending 31 December 2020 exceeds 5%, the 2020 Gas Supply Contract is subject to, *inter alia*, the Independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

As Mr. Hou Shuang Jiang, the non-executive Director, has directorship in 津燃貿易諮詢有限公司 (Tianjin Gas Trading Consultants Limited), a wholly-owned subsidiary of Tianjin Gas, Mr. Wang Jin, the non-executive Director, has directorship in 天津市津燃置業投資有限公司 (Tianjin Jinran Property Investment Limited*), a wholly-owned subsidiary of Tianjin Gas, and Mr. Zhao Heng Hai, the non-executive Director, has directorship in Jinran China Resources, all of abovementioned Directors had abstained from voting in the passing of Board resolutions in relation to the 2020 Gas Supply Contract, and were not counted in the quorum in the relevant meeting of the Board in relation to the 2020 Gas Supply Contract.

Tianjin Gas, which, as at the Latest Practicable Date, held approximately 70.54% of the total issued share capital of the Company, will abstain from voting on the resolution to be proposed at the EGM in connection with the 2020 Gas Supply Contract. Save as disclosed above, none of the Shareholders are required to abstain from voting on the aforesaid resolution.

GENERAL

The Company has established the Independent Board Committee, which consists of the independent non-executive Directors, to advise the Independent Shareholders on the Continuation of Gas Supply and the 2020 Gas Supply Contract. The Company has appointed Gram Capital to advise the Independent Board Committee and Independent Shareholders on the above matter.

EXTRAORDINARY GENERAL MEETING

An ordinary resolution in respect of the 2020 Gas Supply Contract will be proposed at the EGM to be held at 3:00 p.m. on 30 December 2019 (Monday) at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC. Voting at the EGM shall be taken on a poll.

LETTER FROM THE BOARD

The notice of the EGM, together with the reply slip of the EGM and the proxy form have been published and despatched to the Shareholders on 14 November 2019 and will remain unchanged and valid for the EGM. Whether or not you are able to attend (if you are so entitled to) the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return them as soon as possible to the Company's office in the PRC at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC (for holders of Domestic Shares), or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM (if applicable).

You are also reminded to complete and sign the reply slip (if you are entitled to attend the EGM) and return the signed slip to the Company's office in the PRC at Floor 9, Gangao Tower, No. 18 Zhengzhou Road, Heping District, Tianjin, PRC on or before 10 December 2019 (Tuesday) in accordance with the instructions printed thereon.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 16 of this circular which contains its recommendation to the Independent Shareholders concerning the Continuation of Gas Supply and the 2020 Gas Supply Contract; and (ii) the letter from Gram Capital set out on pages 17 to 30 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders in relation to the Continuation of Gas Supply and the 2020 Gas Supply Contract and the principal factors and reasons considered by them in formulating their advice and recommendation.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the terms of the 2020 Gas Supply Contract and the transactions contemplated thereunder are fair and reasonable in so far as the Company and the Shareholders as a whole.

Yours faithfully,

By Order of the Board

Tianjin Jinran Public Utilities Company Limited

Zhao Wei

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



天津津燃公用事業股份有限公司

Tianjin Jinran Public Utilities Company Limited

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

(Stock Code: 01265)

11 December 2019

To the Independent Shareholders

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 11 December 2019 despatched to the Shareholders, of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the 2020 Gas Supply Contract and the transactions contemplated thereunder are fair and reasonable. Gram Capital has been appointed to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board set out on pages 5 to 15 of the Circular and the letter from Gram Capital set out on pages 17 to 30 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of Gram Capital set out in its letter of advice set out in the Circular, we are of the opinion that the terms of the 2020 Gas Supply Contract and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the 2020 Gas Supply Contract and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Zhang Ying Hua

Independent

non-executive Director

Mr. Yu Jian Jun

Independent

non-executive Director

Mr. Guo Jia Li

Independent

non-executive Director

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuation of Gas Supply for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

11 December 2019

*To: The Independent Board Committee and the Independent Shareholders
of Tianjin Jinran Public Utilities Company Limited*

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO GAS SUPPLY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuation of Gas Supply, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 11 December 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As the 2019 Gas Supply Contract will be expired on 31 December 2019, on 11 November 2019, the Company and Jinran China Resources entered into the 2020 Gas Supply Contract for the period from 1 January 2020 to 31 December 2020.

With reference to the Board Letter, the Continuation of Gas Supply constitutes continuing connected transactions of the Company and is subject to Independent Shareholders’ approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Zhang Ying Hua, Mr. Yu Jian Jun and Mr. Guo Jia Li (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Continuation of Gas Supply are on normal commercial terms and are fair and reasonable; (ii) whether the Continuation of Gas Supply is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Continuation of Gas Supply at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to (i) a continuing connected transaction of the Company (details of which was set out in the circular of the Company dated 8 June 2018); (ii) a continuing connected transaction of the Company (details of which was set out in the circular of the Company dated 26 October 2018); and (iii) a continuing connected transaction of the Company (details of which was set out in the circular of the Company dated 3 June 2019). As the aforesaid engagements were independent financial adviser engagements, they do not affect our independence to act as the Independent Financial Adviser. Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Continuation of Gas Supply. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

LETTER FROM GRAM CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Jinran China Resources or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Continuation of Gas Supply. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Continuation of Gas Supply, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Continuation of Gas Supply

Information on the Group

With reference to the Board Letter, the Group's principal activities are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas in the PRC.

With reference to the Company's annual report for the year ended 31 December 2018, the Group recorded revenue of approximately RMB1.52 billion for the year ended 31 December 2018 ("FY2018"), representing an increase of approximately 3.43% as compared to that for the year ended 31 December 2017 ("FY2017"). Revenue from the sales of piped gas segment amounted to approximately RMB1.41 billion for the FY2018, representing an increase of approximately 6.22% as compared to that for FY2017 and contributing approximately 92.56% of the Group's revenue for FY2018.

LETTER FROM GRAM CAPITAL

With reference to the Company's interim report for the six months ended 30 June 2019, the Group recorded revenue of approximately RMB778.94 million for the six months ended 30 June 2019 ("HY2019"), representing an increase of approximately 2.45% as compared to that for the six months ended 30 June 2018 ("HY2018"). Revenue from the sales of piped gas segment amounted to approximately RMB755.83 million for the HY2019, representing an increase of approximately 6.44% as compared to that for HY2018 and contributing approximately 97.03% of the Group's revenue for HY2019.

Information on Jinran China Resources

With reference to the Board Letter, Jinran China Resources is the sole wholesale supplier of natural gas in the Tianjin City and part of the rural areas of Tianjin. The principal business of Jinran China Resources comprise operation of gas pipeline infrastructure, supply of natural gas to other gas supply operators in the Tianjin area, the sales and distribution of piped gas to end users and the sale of gas appliances and equipment in connection with gas supply in certain areas in Tianjin.

Reasons for and benefits of the Continuation of Gas Supply

With reference to the Board Letter, Jinran China Resources is the only natural gas wholesaler in the districts in Tianjin in which the Company operates. As advised by the Directors, as the Group's revenue are mostly derived from the sales of piped gas, it is important to secure the local natural gas supply to the Company.

As further advised by the Directors, the purchase and sales of natural gas is conducted in the ordinary course of business of the Group, and is conducted on a continuous and regular basis. As such, it would be costly to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the Continuation of Gas Supply will be beneficial to the Company and the Shareholders as a whole.

In view of the above factors, we concur with the Directors that the Continuation of Gas Supply is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the 2020 Gas Supply Contract in relation to the Continuation of Gas Supply

Date

11 November 2019

LETTER FROM GRAM CAPITAL

Contracting parties

Jinran China Resources (as supplier) and the Company (as purchaser)

Subject of the transaction and pricing policy

Pursuant to the 2020 Gas Supply Contract, Jinran China Resources has agreed to supply to the Company and the Company has agreed to purchase from Jinran China Resources natural gas at the Gas Sourcing Price. The Pricing Mechanism, as extracted from the Board Letter, is set out as follows:

I) Gas Sourcing Price for Contractual Amount

The Gas Sourcing Price for the Contractual Amount for the year ending 31 December 2020 will be adjusted monthly based on the Gas Sourcing Price of the previous month in the following manner (*note*):

Adjustment needed for the Gas Sourcing Price for Contractual Amount = (the Gas Purchase Price for Contractual Amount attributed to Residential Users for the month – the Gas Purchase Price for Contractual Amount attributed to Residential Users for the previous month) x Residential Gas Ratio of the Contractual Amount + (the Gas Purchase Price for Contractual Amount attributed to Non-residential Users for the month – the Gas Purchase Price for Contractual Amount attributed to Non-residential Users for the previous month) x Non-residential Gas Ratio of the Contractual Amount

Residential Gas Ratio of the Contractual Amount = The Contractual Amount of gas being classified for Residential Users and supplied by the Company to its downstream customers ÷ the total Contractual Amount of gas being supplied by the Company to its downstream customers in the month

Non-residential Gas Ratio of the Contractual Amount = The Contractual Amount of gas being classified as for Non-residential Users and supplied by the Company to its downstream customers ÷ the total Contractual Amount of gas being supplied by the Company to its downstream customers in the month

LETTER FROM GRAM CAPITAL

Contractual Amount = The amount of gas actually supplied to the Company by Jinran China Resources the corresponding month in 2019 x the total amount of gas supplied to Jinran China Resources by its contractual source in the corresponding month of the year 2020 ÷ the total amount of gas supplied to Jinran China Resources by its contractual source in the corresponding month of year 2019

II) Gas Sourcing Price for Non-Contractual Amount

The Gas Sourcing Price for Non-Contractual Amount will be determined as follows:

Gas Sourcing Price for Non-Contractual Amount = Gas Purchase Price for Non-Contractual Amount + RMB0.12 per cubic metre. Jinran China Resources is obliged to present to the Company the proof of the actual Gas Purchase Price for Non-Contractual Amount

Non-Contractual Amount = The amount of gas actually supplied to the Company by Jinran China Resources that exceeds the Contractual Amount

Note: The Gas Sourcing Price for the Contractual Amount for January 2020 will be adjusted based on the Gas Sourcing Price of December 2019 in the manner set out above.

Notwithstanding the aforesaid Pricing Mechanism, should there be a change in the applicable laws and regulations under which the Gas Sourcing Price is mandated by the PRC government or authorities, the mandated price shall prevail.

We noted that the Pricing Mechanism of Gas Sourcing Price (for both Contractual Amount and Non-Contractual Amount) under the 2020 Gas Supply Contract is the same as the pricing mechanism of Gas Sourcing Price (for both Contractual Amount and Non-Contractual Amount) for previous period under the 2019 Gas Supply Contract.

In respect of the Gas Sourcing Price for the Contractual Amount, the adjustment reflected the change in Gas Purchase Price for Contractual Amount, Residential Gas Ratio and Non-residential Gas Ratio. As advised by the Directors, Jinran China Resources would only offer the Gas Sourcing Price to the Company instead of offering a gas sourcing price for Residential Users and another gas sourcing price for Non-residential Users. As such, the Gas Sourcing Price to be offered by Jinran China Resources to the Company is a comprehensive selling price and the Residential Gas Ratio and Non-residential Gas Ratio will be considered to reflect the change of the comprehensive sourcing price (i.e. Gas Sourcing Price).

LETTER FROM GRAM CAPITAL

As the adjustment takes in account the effect of (i) dollar to dollar change in Gas Purchase Price; and (ii) Residential Gas Ratio and Non-residential Gas Ratio, we do not doubt the reasonableness of the Pricing Mechanism for calculation of Gas Sourcing Price for Contractual Amount.

In respect of the Gas Sourcing Price for the Non-Contractual Amount, it equals to the Gas Purchase Price for Non-Contractual Amount plus RMB0.12 per cubic metre. The Directors advised us that the additional cost (i.e. RMB0.12 per cubic metre, the “**Additional Fee**”) represented gas transportation cost charged by Jinran China Resources regarding the transmit natural gas via its pipelines.

For our due diligence purpose, we noted that the Company previously entered into a gas transportation contract with Jinran China Resources in relation to the natural gas transmission by Jinran China Resources through the gas pipelines owned and managed by the Company for the period from 1 January 2018 to 31 December 2020. Pursuant to such contract, the gas transportation fees are calculated based on the actual volume of natural gas and actual distance transmitted at RMB0.8 per 1,000 cubic metres per kilometre (i.e. RMB0.0008 per cubic metres per kilometre). Upon our request, the Directors advised us the pipeline length for natural gas transmission by Jinran China Resources to the Group pursuant to the 2020 Gas Supply Contract (the “**Pipeline Length**”). We noted that the implied cost of Additional Fee (per cubic metre per kilometre) (i.e. the Additional Fee divided by Pipeline Length) was less than the cost of gas transportation fees (per cubic metre per kilometre) under the gas transportation contract. As such, we consider the Additional Fee to be fair and reasonable.

With reference to the Board Letter, the Group has adopted certain internal control procedures in relation to the Continuation of Gas Supply, details of which are set out in the sub-sections headed “INTERNAL CONTROLS” of the Board Letter. Having considered, in particular, that

- (i) the Company’s sales department would (a) pay close attention to any laws and regulations promulgated by Tianjin Municipal Government from time to time that is applicable to the Gas Sourcing Price; (b) review the invoices or any proof of the actual Gas Purchase Price presented by Jinran China Resources each month; and (c) verify the Residential Gas Ratio and Non-Residential Gas Ratio each month; and (d) compare the amount of gas actually supplied with the corresponding period last year to see if the amount of gas supplied is in excess of the Contractual Amount for the each month;

LETTER FROM GRAM CAPITAL

- (ii) the Company's internal audit department would verify the Gas Sourcing Price for each month according to the Pricing Mechanism; and
- (iii) the Company's finance department would verify the adjusted Gas Sourcing Price with the amount of gas supplied in each month,

we consider the effective implementation of such internal control measures would help to ensure fair pricing of the Continuation of Gas Supply.

Settlement

The Company shall pay Jinran China Resources for the gas supplied each month and the relevant amounts payable are calculated on the basis of the actual consumption of natural gas by the Company during the month and the discrepancy in the total volume transported (caused by minute leakage during transportation and/or the accuracy of the metre reading, if any) of 3% (the “**Discrepancy**”).

The Company shall settle the gas fee incurred for each month within the two working days upon receipt of the settlement bill and invoice in the following month.

For gas fee incurred in November and December, the Company will settle 70% of the gas fee incurred for the relevant month. The Company shall verify the settlement proof in respect of the upstream sourcing price and the Gas Sourcing Price within two working days upon receipt of the settlement bill and invoice. The Company shall then reflect in writing the verification outcome to Jinran China Resources. The Company shall pay the balance of the gas fee (30%) to Jinran China Resources within two working days upon confirmation of the amount payable by both parties.

In relation to the Discrepancy, the Directors advised us that the Company had made similar arrangement previously due to (i) gas leakage from the pipelines during its normal course of operation and (ii) the discrepancy in the reading of gas meters. We consider the settlement arrangement to be justifiable.

Prepayment

The Company shall make a prepayment (the “**Prepayment**”) to Jinran China Resources within five working days upon the 2020 Gas Supply Contract taking effect, which is calculated in the following manner:

$$\text{Prepayment} = \text{Total sum of the transaction amount of the Gas Supply for the year 2019/365} \times 30$$

LETTER FROM GRAM CAPITAL

Jinran China Resources shall have the right to offset the outstanding gas fees by the Prepayment. If the Company fails to pay the Prepayment or the amount of the Prepayment is insufficient to cover the outstanding amount payable by the Company to Jinran China Resources, Jinran China Resources shall have the right to, after serving notification three working days in advance, reduce or suspend the delivery of natural gas until the outstanding payment has been settled.

If the Company fails to settle the Prepayment or any gas fees payable for two instalments, or based on Jinran China Resources' judgement in good faith, it is likely that the Company will be in default in payment of the gas fees, Jinran China Resources shall have the right to demand the Company to provide guarantee.

With reference to the Board Letter, upon expiry of the 2020 Gas Supply Contract, the Prepayment shall be refunded to the Group by Jinran China Resources or used to offset the gas fees for the relevant month(s) at the end of 2020. The Prepayment under the 2019 Gas Supply Contract will be used to offset the gas fee for December 2019. We consider the Prepayment arrangement to be justifiable.

In light of the above, we are of the view that the terms of the Continuation of Gas Supply are on normal commercial terms and are fair and reasonable.

3. Proposed annual cap in relation to the Continuation of Gas Supply

Set out below are (i) the historical annual cap for FY2018 and the year ending 31 December 2019; (ii) the actual transaction amount for FY2018 and the nine months ended 30 September 2019; and (iii) the proposed annual cap for the year ending 31 December 2020 as extracted from the Board Letter:

	For the year ended 31 December 2018 RMB'million	For the year ending 31 December 2019 RMB'million
Historical annual caps (tax inclusive)	1,700.0	1,915.2
Actual transaction amount (approximate)	1,365.2	1,004.7
	(tax inclusive, unaudited)	(tax inclusive, unaudited)
	or	or
	1,229.9	800.03
	(tax exclusive, audited)	(tax exclusive, unaudited)
		(note)

LETTER FROM GRAM CAPITAL

	For the year ended 31 December 2018 <i>RMB'million</i>	For the year ending 31 December 2019 <i>RMB'million</i>
Utilisation rate	80.3% (based on tax inclusive figures)	N/A
		For the year ending 31 December 2020 <i>RMB'million</i>
Proposed annual cap (tax inclusive)		1,879.0

Note: for the nine months ended 30 September 2019

With reference to the Board Letter, in arriving at the proposed annual cap, the Company has considered, among others, the following factors: (i) the historical figures of transactions with Jinran China Resources for Gas Supply; (ii) the increase in the volume of natural gas purchased by the Group from Jinran China Resources for the last three years and the estimated Gas Volume for the year ending 31 December 2019; (iii) the potential increase of Gas Sourcing Price (including, but not limited to, the increase during the winter months in 2020 and for the Non-residential Users during the non-heating season in 2020); and (iv) a small additional buffer in case of unexpected fluctuation.

To assess the fairness and reasonableness of the proposed annual cap, we have obtained and reviewed the calculation of the proposed annual cap. We noted from the calculation that the proposed annual cap was estimated based on (i) the estimated transaction amount in 2019; (ii) the estimated increase in volume of natural gas purchased by the Group from Jinran China Resources (i.e. Gas Volume) of 10% and the estimated increase in Gas Sourcing Price of 9% in 2020; and (iii) a buffer of approximately 5.3% (i.e. the proposed annual cap \approx estimated transaction amount in 2019 \times 1.1 \times 1.09 \times 1.053). As advised by the Directors, when determining the proposed annual cap, the Directors referred to the historical Gas Volume and Gas Sourcing Price during the three years ended 31 December 2018 and the nine months ended 30 September 2019, being the then latest figures available.

LETTER FROM GRAM CAPITAL

Estimated transaction amount in 2019

We noted from the calculation that the estimated transaction amount in 2019 is determined by the estimated Gas Volume in 2019 and the average Gas Sourcing Price for the nine months ended 30 September 2019.

Based on the calculation, the estimated Gas Volume in 2019 equals to the sum of historical Gas Volume during the nine months ended 30 September 2019 and the estimated Gas Volume during the three months ending 31 December 2019. As advised by the Directors, the estimated Gas Volume during the three months ending 31 December 2019 was determined by business department of the Company taking into account the expected customers' demand. In particular, the Directors expected that one of the Company's major customers would have a significant increase in demand from October 2019 based on their understanding with that particular customer (the "**Customer**"). For our due diligence purpose, we also obtained information regarding the monthly Gas Volume during FY2018. We noted that the estimated Gas Volume for the three months ending 31 December 2019 represents an increase of approximately 14.3% as compared that for the three months ended 31 December 2018.

For our due diligence purpose, we also obtained latest figures prepared by the Company as at the Latest Practicable Date (i.e. the Customer's purchased gas volume for the month ended October 2018 and the month ended October 2019). We noted that the Customer's purchased gas volume for the month October 2019 represents an increase of approximately 17.5% as compared to that for the month October 2018. The latest historical figures do not deviate from the then Gas Volume estimation by the Company when determining the proposed annual cap.

LETTER FROM GRAM CAPITAL

Estimated increase in Gas Volume

As advised by the Directors, the estimated increase in Gas Volume in 2020 is determined based on the average increase in actual Gas Volume during recent years (i.e. historical volume from 2016 to 2018 and the estimated volume in 2019). For our due diligence purpose, we obtained figures regarding the Gas Volume during each of the three years ended 31 December 2018. We noted that average growth rate during 2016 to 2019 are as follows:

Period	Increase/ (decrease) rate in Gas Volume
From 2016 to 2017	20.8%
From 2017 to 2018	5.6%
From 2018 to 2019	2.4%
Average	9.6%

Based on the table above, the average annual increase rate in Gas Volume is approximately 9.6%, which is close to the estimated increase of 10% in 2020 by the Company.

Estimated increase Gas Sourcing Price

We understood from the Directors that the Gas Sourcing Price was mandated by the Tianjin Development and Reform Commission in the past (the “**Mandated Sourcing Price**”). However, with effect from September 2017, the Mandated Sourcing Price became invalid and the Tianjin Development and Reform Commission no longer mandates the gas sourcing price. As advised by the Directors, the estimated increase in Gas Sourcing Price in 2020 is determined based on the increase in average Gas Sourcing Price (tax exclusive) during the nine months ended 30 September 2019 (as compared that for FY2018). For our due diligence purpose, we obtained figures regarding average Gas Sourcing Price (tax exclusive) during FY2018 and the nine months ended 30 September 2019. We noted that increase in average Gas Sourcing Price (tax exclusive) during the nine months ended 30 September 2019 (as compared to that for FY2018) is approximately 8.34%, which does not deviate from the estimated increase of 9% in 2020 by the Company.

LETTER FROM GRAM CAPITAL

Buffer

With reference to the Board Letter, the Directors applied a buffer of approximately 5.3% when determining the estimated demand of natural gas for the year ending 31 December 2020. Having considered that the buffer was applied for unforeseeable circumstances such as (a) possible price adjustment on the Gas Purchase Price; (b) the purchase of Non-Contractual Amount; and (c) the impact of environmental protection strategy of the PRC government, we consider the application of buffer to be justifiable.

In light of the above, we concur with the Directors that the proposed annual cap for the year ending 31 December 2020 is fair and reasonable.

Shareholders should note that as the proposed annual cap are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2020, and they do not represent forecasts of cost to be incurred from the Continuation of Gas Supply. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Continuation of Gas Supply will correspond with the proposed annual cap.

4. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Continuation of Gas Supply must be restricted by the proposed annual cap; (ii) the terms of the Continuation of Gas Supply must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Continuation of Gas Supply must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transaction; and (iii) have exceeded the proposed annual cap. In the event that the total amounts of the transaction are anticipated to exceed the proposed annual cap, or that there is any proposed material amendment to the terms of the Continuation of Gas Supply, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Continuation of Gas Supply and thus the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Continuation of Gas Supply (including the proposed annual cap) are on normal commercial terms and are fair and reasonable; and (ii) the Continuation of Gas Supply (including the proposed annual cap) is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Continuation of Gas Supply (including the proposed annual cap) and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and supervisors' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors, supervisors (the “**Supervisors**”) and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) are as follows:

Long position

Domestic Shares of RMB0.1 each in the capital of the Company

Name of Director/Supervisor	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/ Domestic Shares
Ms. Tang Jie	Beneficial owner	41,700,000	2.27%/3.11%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the interest of the persons, other than Directors, Supervisors or chief executives of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long position

Domestic Shares of RMB0.1 each in the capital of the Company

Name of Shareholder	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/ Domestic Shares
Tianjin Gas	Beneficial owner	1,297,547,800	70.54%/96.89%
Tianjin Energy Investment Group Co., Ltd. ("Tianjin Energy") (Note 1) 天津能源投資集團有限公司	Interest of a controlled corporation	1,297,547,800	70.54%/96.89%

Note:

1. Tianjin Energy is the intermediary holding company of Tianjin Gas. Therefore Tianjin Energy is deemed, or taken to be interested in all the Domestic Shares beneficially held by Tianjin Gas for the purpose of the SFO.

Long position*H Shares of RMB0.1 each in the capital of the Company*

Name of Shareholders	Capacity	Number of H Shares held	Approximate percentage of interests in the Company/ H Shares
Liu Hei Wan	Interests held jointly with another person (note 1)	14,500,000	0.79%/2.90%
	Held by controlled corporation (note 2)	30,000,000	1.63%/6.00%
Law Suet Yi	Interests held jointly with another person (note 1)	14,500,000	0.79%/2.90%
	Interest of spouse (note 3)	30,000,000	1.63%/6.00%
The Waterfront Development Group Limited	Beneficial owner (note 2)	30,000,000	1.63%/6.00%
China Alpha Master Fund Ltd	Beneficial owner	28,350,000	1.54%/5.67%
Wang Junyan	Held by controlled corporation (note 4)	28,350,000	1.54%/5.67%
China Alpha Fund Management Ltd	Investment manager	28,350,000	1.54%/5.67%
Alpha Logic Holdings Limited	Held by controlled corporation (note 5)	28,350,000	1.54%/5.67%
Jet Elite Investments Limited	Held by controlled corporation (note 6)	28,350,000	1.54%/5.67%
China Alpha Fund Management (HK) Limited	Investment manager	28,350,000	1.54%/5.67%

Notes:

1. As at the Latest Practicable Date, Mr. Liu Hei Wan and Ms. Law Suet Yi jointly held 14,500,000 H Shares.
2. The Waterfront Development Group Limited is wholly-owned by Mr. Liu Hei Wan and thus a controlled corporation by Mr. Liu Hei Wan. Therefore, Mr. Liu Hei Wan is deemed, or taken to be, interested in the 30,000,000 H Shares which are beneficially owned by The Waterfront Development Group Limited for the purpose of the SFO.
3. Ms. Law Suet Yi is the spouse of Mr. Liu Hei Wan and therefore, Ms. Law Suet Yi is deemed, or taken to be, interested in all the shares in which Mr. Liu Hei Wan is interested for the purpose of SFO.
4. China Alpha Fund Management Ltd is wholly-owned by Wang Junyan and thus a controlled corporation by Wang Junyan. Besides, Alpha Logic Holdings Limited is held as to approximately 80% by Wang Junyan, which in turn is directly interested in approximately 80% in Jet Elite Investments Limited, and China Alpha Fund Management (HK) Limited is wholly-owned by Jet Elite Investments Limited. Wang Junyan controls more than one-third of the voting rights of China Alpha Fund Management Ltd, Alpha Logic Holdings Limited, Jet Elite Investments Limited and China Alpha Fund Management (HK) Limited, and is deemed to be interested in the interests in China Alpha Fund Management Ltd, Alpha Logic Holdings Limited, Jet Elite Investments Limited and China Alpha Fund Management (HK) Limited in the Company by virtue of the SFO.
5. Alpha Logic Holdings Limited is directly interested in approximately 80% in Jet Elite Investments Limited, and China Alpha Fund Management (HK) Limited is wholly-owned by Jet Elite Investments Limited. Alpha Logic Holdings Limited controls more than one-third of the voting rights of Jet Elite Investments Limited and China Alpha Fund Management (HK) Limited, and is deemed to be interested in the interests in Jet Elite Investments Limited and China Alpha Fund Management (HK) Limited in the Company by virtue of the SFO.
6. China Alpha Fund Management (HK) Limited is wholly-owned by Jet Elite Investments Limited. Jet Elite Investments Limited controls more than one-third of the voting rights of China Alpha Fund Management (HK) Limited, and is deemed to be interested in the interest in China Alpha Fund Management (HK) Limited in the Company by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any person, not being a Director, chief executive or supervisor of the Company, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

3. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

4. COMPETING INTERESTS

Each of the Directors and their respective associates has confirmed that he/she does not have any interest in a business which competes or may compete with the business of the Group.

Based on the above, as at the Latest Practicable Date, none of the Directors was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

5. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Board or the Company to be pending or threatened by or against any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors nor Supervisors has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

7. DISCLOSURE OF INTEREST, CONSENT AND QUALIFICATION OF EXPERTS

The following are the qualifications of the professional adviser who has given the Company an opinion or provided advice referred to or contained in this circular:

Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate
Limited	finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital has no beneficial interest in the share capital of any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital had no direct or indirect interest in any assets which has been, since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, as the case may be, and references to its name and/or its opinion or report included in this circular in the form and context in which they respectively included.

The letter from Gram Capital dated 11 December 2019 is given on pages 17 to 30 for incorporation herein.

8. MISCELLANEOUS

- (a) As at the Latest Practicable Date, none of the Directors or Supervisors was interested in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, the date to which the latest published audited accounts of the Company were made up.
- (b) As at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 31 December 2018.

9. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the following documents are available for inspection during normal business hours of Messrs. LC Lawyers LLP at Suite 3106, 31/F One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong from the date of this circular up to and including the date of the EGM.

- (a) the 2019 Gas Supply Contract;
- (b) the 2020 Gas Supply Contract;
- (c) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 30 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular; and
- (e) the written consent of Gram Capital referred to in the section headed "Disclosure of interest, consent and qualification of experts" in this appendix.