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元亨燃氣

YUANHENG GAS

YUAN HENG GAS HOLDINGS LIMITED

元亨燃氣控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 332)

THREE CONTINUING CONNECTED TRANSACTIONS

On 31 December 2021, Huaheng Energy entered into (i) the Piped Gas Purchase Agreement in respect of the sale and purchase of natural gas with GG Pipeline; and (ii) the LNG Purchase Agreement in respect of the sale and purchase of LNG with GG Natural Gas.

Also on 31 December 2021, Yuanheng Gas entered into the LNG Supply Agreement in respect of the sale and purchase of LNG with GG Natural Gas.

As each of the Agreements is entered into between an indirect non-wholly owned subsidiary of the Company (namely Huaheng Energy and Yuanheng Gas) and a connected person of the Company at the subsidiary level only (namely GG Pipeline and GG Natural Gas) on normal commercial terms or better, the Company is required to comply with the reporting and announcement requirements but are exempted from the circular, (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

The Directors (including the independent non-executive Directors) have confirmed and considered that the transactions contemplated under the Piped Gas Purchase Agreement and the LNG Purchase Agreement have been subject to arm's length negotiation between Huaheng Energy and the respective parties, and have been entered into by Huaheng Energy in the ordinary and usual course of business and on normal commercial terms or better and which are no less favourable to the Group than those available to or from Independent Third Parties and are of the view that the transactions contemplated under the Piped Gas Purchase Agreement and the LNG Purchase Agreement and the respective proposed annual cap thereunder for the one-year period ending 31 December 2022 are fair and reasonable, are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Since no Director is considered to have material interest in the Piped Gas Purchase Agreement, the LNG Purchase Agreement and the transactions contemplated thereunder, no Director have abstained from voting on the resolutions passed at the Board meeting held on 31 December 2021 to approve the Piped Gas Purchase Agreement, the LNG Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps).

The Directors (including the independent non-executive Directors) have confirmed and considered that the transactions contemplated under the LNG Supply Agreement have been subject to arm's length negotiation between Yuanheng Gas and GG Natural Gas, and has been entered into by Yuanheng Gas in the ordinary and usual course of business and on normal commercial terms or better and which are no less favourable to the Group than those available to or from Independent Third Parties and are of the view that the transactions contemplated under the LNG Supply Agreement and the proposed annual cap for the one-year period ending 31 December 2022 are fair and reasonable, are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Since no Director is considered to have material interest in the LNG Supply Agreement and the transactions contemplated thereunder, no Director have abstained from voting on the resolutions passed at the Board meeting held on 31 December 2021 to approve the LNG Supply Agreement and the transactions contemplated thereunder (including the proposed annual cap).

On 31 December 2021, Huaheng Energy entered into (i) the Piped Gas Purchase Agreement in respect of the sale and purchase of natural gas with GG Pipeline; and (ii) the LNG Purchase Agreement in respect of the sale and purchase of LNG with GG Natural Gas.

Also on 31 December 2021, Yuanheng Gas entered into the LNG Supply Agreement in respect of the sale and purchase of LNG with GG Natural Gas.

Details of the agreements are set out below.

PRINCIPAL TERMS OF THE AGREEMENTS

1. Piped Gas Purchase Agreement

Date:	31 December 2021
Parties:	(1) Huaheng Energy, as purchaser (2) GG Pipeline, as seller
Term:	One year from 1 January 2022 to 31 December 2022
Subject matter:	Huaheng Energy has agreed to purchase and GG Pipeline has agreed to sell natural gas via their pipelines subject to the terms and conditions contained in the Piped Gas Purchase Agreement.
Pricing basis:	<p>The price to be paid by Huaheng Energy shall be the aggregate of the price of the natural gas and the price of the pipelines usage fee.</p> <p>GG Pipeline shall source the natural gas to sell to Huaheng Energy and the price of the natural gas shall be the actual settlement price of the natural gas sold and charged by Guizhou Sales Branch of China National Petroleum Corporation, an Independent Third Party, the seller of the natural gas.</p> <p>The pipeline usage fee shall be RMB0.483 per cubic meter (inclusive of VAT), subject to adjustment as agreed between Huaheng Energy and GG Pipeline.</p>
Payment term:	Actual price of the natural gas payable shall be determined weekly between GG Pipeline and Huaheng Energy upon verification by both parties, while Huaheng Energy is required to pay the expected amount in advance.
Annual cap:	Proposed annual cap for the one-year period for purchase of piped gas is as follows:

Annual cap
RMB'000

1 January 2022 to 31 December 2022	829,000
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Basis of the annual cap: The annual cap under the Piped Gas Purchase Agreement was determined based on the estimated natural gas demand multiplied by the projected price of the natural gas and the pipeline usage fee and the following matters:

- (a) the historical transaction amount and costs of piped gas purchased by the Group from the GG Group;
- (b) the production and operation capacity of the Group, in particular Huaheng Energy;
- (c) the projected gradual increase in demand of piped gas throughout the period with estimated purchase of piped gas from the Group's customers;
- (d) the projected price of natural gas and pipeline usage fee for the relevant period; and
- (e) a buffer to accommodate changes in market conditions.

The historical transaction amounts of piped gas purchased by Huaheng Energy from GG Pipeline for the two years ended 31 December 2019 and 2020, and the expected amount for the latest year ending 31 December 2021 are set out below:

	Total historical transaction amount of piped gas RMB'000
Year ended 31 December 2019	220,796
Year ended 31 December 2020	290,648
Year ending 31 December 2021 (<i>note</i>)	455,765

Note: The figure for the year ending 31 December 2021 comprises historical transaction amounts for the eleven months up to and including 30 November 2021 and the estimated amounts for December 2021.

It should be noted that the historical amounts for year ended 31 December 2020 was initially adversely affected by the coronavirus outbreak in early January 2020 in the PRC which caused nationwide shutdown and disruption and hence caused a decrease in piped gas usage and also a reduction in the price of the piped gas. Although business operation has gradually been resumed, there have been continuous and global-wide logistics disruptions causing substantial and wide fluctuations to the natural gas prices in the global energy markets since then and this trend is expected to continue in 2022.

2. LNG Purchase Agreement

Date:	31 December 2021
Parties:	(1) Huaheng Energy, as purchaser (2) GG Natural Gas, as seller
Term:	One year from 1 January 2022 to 31 December 2022
Subject matter:	Huaheng Energy has agreed to purchase and GG Natural Gas has agreed to sell LNG subject to the terms and conditions contained in the LNG Purchase Agreement.
Pricing basis:	The price shall be (i) agreed by the parties according to the prevailing average monthly market price of LNG in the PRC, and (ii) subject to the adjustments that may be made by (a) 國家發展與改革委員會 (National Development and Reform Commission of the PRC) (“NDRC”), 中國石油天然氣股份有限公司 (PetroChina Company Limited) (an Independent Third Party) and other relevant government departments to the price of natural gas products; and (b) the amount caused by any change or surcharges made by relevant government departments on the transportation fees or electricity suppliers directly attributable to the natural gas to be supplied.

The parties have continuously been utilizing the national direct reporting site for commodity prices of the Department of Price of NDRC operated by Sublime China Information Co., Limited (commonly known as SCI) (an Independent Third Party) for nationwide natural gas market price for pricing purposes and other relevant market data.

Payment term: Actual price of the LNG payable shall be determined monthly between GG Natural Gas and Huaheng Energy upon verification of the actual LNG sold and purchased by both parties, while Huaheng Energy is required to pay the expected amount of LNG to be purchased monthly in advance based on previous month's usage, adjusted by the actual price of the current month.

Annual cap: Proposed annual cap for the one-year period for purchase of LNG is as follows:

	Annual cap <i>RMB'000</i>
1 January 2022 to 31 December 2022	107,000

Basis of the annual cap: The annual cap under the LNG Purchase Agreement was determined based on estimated LNG demand multiplied by the projected price of the LNG and the following matters:

- (a) the historical transaction amount and costs of LNG purchased by the Group from the GG Group;
- (b) the production and operation capacity of the Group, in particular Huaheng Energy;
- (c) the demand estimated for LNG during the period;
- (d) the projected price of LNG during the period; and
- (e) a buffer to accommodate changes in market conditions.

The historical transaction amounts of LNG purchased by Huaheng Energy from GG Natural Gas for the two years ended 31 December 2019 and 2020 and the expected amount for the latest year ending 31 December 2021 are set out below:

	Total historical transaction amount of LNG RMB'000
Year ended 31 December 2019	98,952
Year ended 31 December 2020	50,033
Year ending 31 December 2021 (<i>note</i>)	43,416

Note: The figure for the year ending 31 December 2021 comprises historical transaction amounts for the eleven months up to and including 30 November 2021 and the estimated amounts for December 2021.

The historical amounts for year ended 31 December 2020 was initially adversely affected by the coronavirus outbreak in early January 2020 in the PRC which caused nationwide shutdown and disruption and hence caused a decrease in LNG usage and purchase from GG Natural Gas. Since then, the continuous and global-wide logistics disruptions causing substantial and wide fluctuations to the energy prices including LNG price has continuously been having an adverse effect on the demand of the particular LNG gas under the LNG Purchase Agreement. Furthermore, in view of the anticipated continuous increase in the global LNG price in 2022, the annual cap for 2022 has been increased to cater for such LNG price increase and the anticipated usage and demand of the Group.

3. LNG Supply Agreement

Date:	31 December 2021				
Parties:	(1) Yuanheng Gas, as seller (2) GG Natural Gas, as purchaser				
Term:	One year from 1 January 2022 to 31 December 2022				
Subject matter:	Yuanheng Gas has agreed to sell and GG Natural Gas has agreed to purchase LNG subject to the terms and conditions contained in the LNG Supply Agreement.				
Pricing basis:	<p>The price shall be agreed by the parties according to the prevailing average monthly market price of LNG in the PRC.</p> <p>The parties have continuously been utilizing the national direct reporting site for commodity prices of the Department of Price of NDRC operated by Sublime China Information Co., Limited (commonly known as SCI) (an Independent Third Party) for nationwide natural gas market price for pricing purposes and other relevant market data.</p>				
Payment term:	Actual price of the LNG payable shall be determined monthly between GG Natural Gas and Yuanheng Gas upon verification by both parties. GG Natural Gas shall pay Yuanheng Gas after Yuanheng Gas tenders the VAT invoices to GG Natural Gas.				
Annual cap:	<p>Proposed annual cap for the one-year period for supply of LNG is as follows:</p> <table><thead><tr><th></th><th style="text-align: right;">Annual cap <i>RMB'000</i></th></tr></thead><tbody><tr><td>1 January 2022 to 31 December 2022</td><td style="text-align: right;">168,000</td></tr></tbody></table>		Annual cap <i>RMB'000</i>	1 January 2022 to 31 December 2022	168,000
	Annual cap <i>RMB'000</i>				
1 January 2022 to 31 December 2022	168,000				
Basis of the annual cap:	<p>The annual cap under the LNG Supply Agreement was determined based on the estimated LNG supply multiplied by the projected price of the LNG and the following matters:</p> <ul style="list-style-type: none">(a) the historical transaction amount and costs of LNG supplied by the Group to the GG Group;(b) the production and operation capacity of the Group, in particular Yuanheng Gas;(c) the demand estimated for LNG during the period;(d) the projected price of LNG during the period; and(e) a buffer to accommodate changes in market conditions.				

The historical transaction amounts of LNG supplied by Yuanheng Gas to GG Natural Gas for the two years ended 31 December 2019 and 2020 and the expected amount for the latest year ending 31 December 2021 are set out below:

	Total historical transaction amount of LNG RMB'000
Year ended 31 December 2019	304,638
Year ended 31 December 2020	171,611
Year ending 31 December 2021 (<i>note</i>)	79,669

Note: The figure for the year ending 31 December 2021 comprises historical transaction amounts for the eleven months up to and including 30 November 2021 and the estimated amounts for December 2021.

The historical amounts for year ended 31 December 2020 was initially adversely affected by the coronavirus outbreak in early January 2020 in the PRC which caused nationwide shutdown and disruption and hence caused a decrease in LNG usage and purchase by GG Natural Gas. Since then, the continuous and global-wide logistics disruptions causing substantial and wide fluctuations to the energy prices including LNG price has continuously been having an adverse effect on the demand of the particular LNG gas under the LNG Supply Agreement. Furthermore, in view of the anticipated continuous increase in the global LNG price in 2022, the annual cap for 2022 has been increased slightly to cater for such LNG price increase and offset slightly by the anticipated reduced demand of GG Natural Gas.

REASONS FOR ENTERING INTO THE AGREEMENTS AND THE ANNUAL CAPS

The Group and GG Group have been transacting numerous natural gas products and services since 2014 and have entered into various framework agreements, purchase agreements and/or services agreements in relation to the purchase or sale of various natural gas products or services between members of the Group and members of GG Group and are expected to continue.

Despite the ongoing global coronavirus pandemic and the very volatile situation in the oil and gas industry, together with the disruptive effects caused by sudden lockdowns and logistics chaos and bottlenecks, both parties have negotiated and agreed on the principal terms for the transactions as contemplated under the respective agreements set out in this announcement. In the end, the parties have agreed on such terms which reflect the common market practice and terms for transactions of similar types and are in substance similar to the previous agreements of similar types entered into between the parties.

The parties having noted that the recent unprecedented business and financial disruptions and volatile energy industry were caused by major global events such as the coronavirus pandemic, the global trade wars, and the sudden lockdowns and logistics chaos and bottlenecks, and further noted that since all relevant operating companies from both groups which are parties to the Agreements are established in the PRC and have their respective financial year tying in with the calendar year, where the calendar year is the period they normally make their annual forecasts and business plans, therefore, after arms lengths negotiations, the parties considered that it would be more practical and reasonable in the foreseeable unstable global environment to enter into the Agreements for a one-year period so that the basis for the annual caps of each Agreement and the transactions contemplated thereunder will be able to better tie in with the business plans and annual forecasts of each relevant operating companies with their respective financial year. The Board considers this is beneficial to all concerned as this would enhance the efficacy of business forecasts of each relevant company and will not have any adverse impact to the business or financial position of the Company at all.

Although our Group and GG Group are competitors in the same oil and gas industry, it is also common practice that market players often will trade among themselves for different types of gas products for many different reasons, such as due to different geographical locations to minimize transportation costs or to secure steady and cost effective sources of supply, or due to seasonal fluctuations so as to maintain steady sources of supply.

The reasons for entering into of the Piped Gas Purchase Agreement and the LNG Purchase Agreement by Huaheng Energy with members of the GG Group are primarily due to the geographical location where Huaheng Energy is located at, where GG Group generally provides the most cost effective and reliable sources of supplies of natural gas in Guizhou Province.

On the other hand, our Group also sources natural gas from other suppliers, processes and produces LNG in other regions outside Guizhou Province and is open for sale to all buyers. In view of the industry nature and our long term relationship with GG Group, our Group via one of our subsidiary, Yuanheng Gas has entered into the LNG Supply Agreement with a member of GG Group to supply them our Group's LNG products.

BOARD CONFIRMATIONS

The Directors (including the independent non-executive Directors) have confirmed and considered that the transactions contemplated under the Piped Gas Purchase Agreement and the LNG Purchase Agreement have been subject to arm's length negotiation between Huaheng Energy and the respective parties, and have been entered into by Huaheng Energy in the ordinary and usual course of business and on normal commercial terms or better and which are no less favourable to the Group than those available to or from Independent Third Parties and are of the view that the transactions contemplated under the Piped Gas Purchase Agreement and the LNG Purchase Agreement and the respective proposed annual cap thereunder for the one-year period ending 31 December 2022 are fair and reasonable, are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Since no Director is considered to have material interest in the Piped Gas Purchase Agreement, the LNG Purchase Agreement and the transactions contemplated thereunder, no Director have abstained from voting on the resolutions passed at the Board meeting held on 31 December 2021 to approve the Piped Gas Purchase Agreement, the LNG Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps).

The Directors (including the independent non-executive Directors) have confirmed and considered that the transactions contemplated under the LNG Supply Agreement have been subject to arm's length negotiation between Yuanheng Gas and GG Natural Gas, and has been entered into by Yuanheng Gas in the ordinary and usual course of business and on normal commercial terms or better and which are no less favourable to the Group than those available to or from Independent Third Parties and are of the view that the transactions contemplated under the LNG Supply Agreement and the proposed annual cap for the one-year period ending 31 December 2022 are fair and reasonable, are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Since no Director is considered to have material interest in the LNG Supply Agreement and the transactions contemplated thereunder, no Director have abstained from voting on the resolutions passed at the Board meeting held on 31 December 2021 to approve the LNG Supply Agreement and the transactions contemplated thereunder (including the proposed annual cap).

LISTING RULES IMPLICATIONS

Guizhou Gas holds 50% interests in Huaheng Energy, a company established under the laws of the PRC and an indirectly non-wholly owned subsidiary of the Company where the Company indirectly holds the remaining 50% interests in it, and therefore, Guizhou Gas is a connected person of the Company.

As each of GG Pipeline and GG Natural Gas is a subsidiary of Guizhou Gas, thus Guizhou Gas, GG Pipeline and GG Natural Gas are connected persons of the Company and the transactions contemplated under the Agreements constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As each of the Agreements is entered into between an indirect non-wholly owned subsidiary of the Company (namely Huaheng Energy and Yuanheng Gas) and a connected person of the Company at the subsidiary level only (namely GG Pipeline and GG Natural Gas) on normal commercial terms or better, the Company is required to comply with the reporting and announcement requirements but are exempted from the circular, (including independent financial advice) and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

INFORMATION ON THE GROUP

The Company is an investment holding company. The Group is principally engaged in (i) trading of oil and gas products and the provision of related consultancy services; and (ii) processing, distribution, sales, trading and transportation of LNG and other auxiliary operations and networks in the PRC.

Huaheng Energy is a company established under the laws of the PRC and an indirectly non-wholly owned subsidiary of the Company holding 50% of its interests, where the remaining 50% interests is held by Guizhou Gas. Huaheng Energy is a licensed natural gas dealer for the supply and sale of natural gas. It also operates two LNG satellite stations located in Renhuai Famous Wine Industrial Park and Kweichow Moutai Distilleries in Renhuai, Guizhou, PRC for the storage and distribution of natural gas to the white wine distilleries.

Yuanheng Gas is a company established under the laws of the PRC and an indirectly wholly owned subsidiary of the Company. Yuanheng Gas and its subsidiaries are engaged in the LNG processing, distribution, sales, trading and transportation and other auxiliary operations and networks in the PRC.

INFORMATION ON GG GROUP

GG Pipeline is a company established under the laws of the PRC and is a non-wholly owned subsidiary of Guizhou Gas. It is principally engaged in investment in pipeline infrastructure and sale of piped gas. The Company has an indirect equity interests of about 10.59% in GG Pipeline.

GG Natural Gas is a company established under the laws of the PRC and is a wholly-owned subsidiary of Guizhou Gas. It is principally engaged in sales of natural gas.

Guizhou Gas is a state controlled enterprise established under the laws of the PRC and a leading gas corporation in Guizhou Province, PRC. The GG Group is the largest operator of intercity gas pipeline networks and sales of natural gas in Guizhou Province, PRC. Guizhou Gas was listed on the Shanghai Stock Exchange on November 2017 (stock code 600903).

DEFINITIONS

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

“Agreements”	collectively the Piped Gas Purchase Agreement, the LNG Purchase Agreement and the LNG Supply Agreement
“Board”	the board of Directors
“Company”	Yuan Heng Gas Holdings Limited, a company incorporated in Bermuda with limited liability, its issued Shares are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under Chapter 14A of the Listing Rules
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Guizhou Gas”	貴州燃氣集團股份有限公司 (Guizhou Gas Group Corporation Ltd*), formerly known as 貴州燃氣(集團)有限責任公司 (Guizhou Gas (Group) Co., Ltd*), a company established under the laws of the PRC and its shares are listed on the Shanghai Stock Exchange
“GG Group”	collectively, Guizhou Gas and its subsidiaries

“GG Natural Gas”	貴州省天然汽有限公司 (Guizhou Province Natural Gas Co., Ltd.*), a company established under the laws of the PRC and is a wholly-owned subsidiary of Guizhou Gas
“GG Pipeline”	貴州燃汽(集團)天然汽支線管道有限公司 (Guizhou Gas (Group) Natural Gas Branch Pipeline Co., Ltd.*), a company established under the laws of the PRC and is a non-wholly owned subsidiary of Guizhou Gas
“Huaheng Energy”	貴州華亨能源投資有限公司 (Guizhou Huaheng Energy Investment Co., Ltd*), a company established under the laws of the PRC and an indirectly non-wholly owned subsidiary of the Company holding 50% of its interests
“Independent Third Party”	to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, a third party independent of the Company and connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNG”	liquefied natural gas
“LNG Purchase Agreement”	the agreement dated 31 December 2021 and entered into between Huaheng Energy and GG Natural Gas regarding the purchase of natural gas by Huaheng Energy from GG Natural Gas
“LNG Supply Agreement”	the agreement dated 31 December 2021 and entered into between Yuanheng Gas and GG Natural Gas regarding the supply of natural gas by Yuanheng Gas to GG Natural Gas
“Piped Gas Purchase Agreement”	the agreement dated 31 December 2021 and entered into between Huaheng Energy and GG Pipeline regarding the purchase of natural gas by Huaheng Energy from GG Pipeline
“PRC”	The People’s Republic of China

“Shareholders”	holders of ordinary share(s) in the Company of HK\$0.10 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yuanheng Gas”	廣州元亨燃氣有限公司 (Guangzhou Yuanheng Gas Co., Limited*), a wholly-owned foreign enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company

By Order of the Board
Yuan Heng Gas Holdings Limited
Wang Jianqing
Chairman and Chief Executive Officer

Hong Kong, 31 December 2021

As at the date of this announcement, the executive Directors are Mr. Wang Jianqing and Mr. Bao Jun; and the Independent non-executive Directors are Dr. Leung Hoi Ming, Mr. Wong Chi Keung and Mr. Tom Xie.

* *for identification purpose only*