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中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3633)

CONTINUING CONNECTED TRANSACTION

The Group has been purchasing Gas and Kitchen Appliances from the Supplier pursuant to the Gas Appliance Purchase Agreements. Such Gas and Kitchen Appliances will then be sold to the Group's customers. In connection with the transactions under the Gas Appliance Purchase Agreements, the Group also entered into Service Agreements with the Supplier pursuant to which the Group agreed to provide after-sale services, including delivery, installation and repair and maintenance services, to its customers who are users of the Gas and Kitchen Appliances.

In the course of conducting its periodic review of major suppliers for the purpose of preparing its interim results for the six months ended 30 June 2017, the Group was informed that China Gas Holdings Limited, the controlling shareholder of the Company, had an effective interest of approximately 63.3% in the Supplier and therefore, the Supplier is an associate of China Gas Holdings Limited and also a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions under the Gas Appliance Purchase Agreements and the Service Agreements constitute continuing connected transactions of the Group.

As the relevant percentage ratios under the Listing Rules for the annual caps of the transactions under the Gas Appliance Purchase Agreements are, on an annual basis, more than 0.1% but less than 5%, the Gas Appliance Purchase Agreements and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the relevant percentage ratios for the annual caps contemplated of the transactions under the Service Agreements are less than 0.1%, the Service Agreements and the transactions contemplated thereunder are fully exempt from reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GAS APPLIANCE PURCHASE AGREEMENTS

The Group has been purchasing Gas and Kitchen Appliances from the Supplier since 2017 pursuant to the Gas Appliance Purchase Agreements, including gas boilers, gas water heaters, gas stoves, range hood, household disinfection cabinet and other gas appliances and kitchen appliances, which are manufactured by the Supplier.

Principal terms

Pursuant to the Gas Appliance Purchase Agreements, the Group may place orders with the Supplier on a monthly basis for the purchase of Gas and Kitchen Appliances which will then be sold to its customers. The Supplier shall ensure that all Gas and Kitchen Appliances supplied to the Group meet the relevant national quality standard applicable to the particular type of Gas and Kitchen Appliance, otherwise the Group is entitled to refund or exchange. The Supplier will also be responsible for product safety related claims in connection with the Gas and Kitchen Appliances supplied under the Gas Appliance Purchase Agreements.

The Group is given a credit period of 30 days to pay after receipt of the relevant invoice from the Supplier.

The term of the Gas Appliance Purchase Agreements are all for three years each commencing from the date of the relevant agreement.

The Gas Appliance Purchase Agreements do not restrict the Group from purchasing any gas appliances from any other suppliers, nor does it restrict the Supplier from selling any gas appliances to any other customers.

Other than the purchaser in each agreement being different members of the Group, the terms of each of the Gas Appliance Purchase Agreements with the Supplier are identical.

Pricing policy

The transactions under the Gas Appliance Purchase Agreements are on normal commercial terms and the prices payable by the Group for the Gas and Kitchen Appliances are determined based on an arm's length negotiation with the Supplier by reference to:

- (i) the cost of manufacturing the Gas and Kitchen Appliances incurred by the Supplier;
- (ii) mark-up over manufacturing cost charged by the Supplier;
- (iii) the retail price of the Gas and Kitchen Appliances sold by the Supplier to its other customers;
and
- (iv) the prices charged by other independent suppliers of similar Gas and Kitchen Appliances.

Having taken into account the above, the Board is of the view that prices of the Gas and Kitchen Appliances charged by the Supplier are on normal commercial terms.

The Group has in place relevant policies with respect to the selection and engagement of its suppliers and a tendering process will be carried out before it contracts with a new supplier. All suppliers, including the Supplier, are selected based primarily on the budgeted cost, project specifications and qualification requirements during the tendering process. We will review the price offered by the Supplier periodically and seek quotes from at least two independent suppliers to ensure the competitiveness of the price offered by the Supplier during the term of the Gas Appliance Purchase Agreements.

Annual caps under the Gas Appliance Purchase Agreement

The annual caps for the transactions under the Gas Appliance Purchase Agreements in respect of each of the years ending 31 December 2017, 2018 and 2019 are as follows:

	For the year ending 31 December		
	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Purchase of Gas and Kitchen Appliances	75,000,000 (approximately <u>HK\$87,945,000</u>)	130,000,000 (approximately <u>HK\$152,438,000</u>)	150,000,000 (approximately <u>HK\$175,890,000</u>)

The Group did not make any purchases from the Supplier prior to 1 January 2017 nor did it make any material purchases of Gas and Kitchen Appliances from third parties before then. From 1 January 2017 and up to the date of this announcement, purchases of Gas and Kitchen Appliances from the Supplier by the Group amounted to approximately RMB23 million in aggregate.

In determining the annual caps above, the management of the Group has taken into account:

- (i) the amount of purchase incurred under the Gas Appliance Purchase Agreements from 1 January 2017 and up to the date of this announcement; and
- (ii) expected demand for Gas and Kitchen Appliances for the three years ending 31 December 2019. In particular, in order to battle the air pollution problems in China, in recent years, the PRC government has been promoting the use of clean energy as a replacement of coal which is commonly used by households in rural areas, especially in Hebei Province. The Group expects that the sale of its Gas and Kitchen Appliances can benefit from the progress of such program in 2017 and 2018 and therefore the Group has taken into account a buffer of 50% and 30% when determining the annual caps for 2017 and 2018, respectively. No such buffer is provided for the annual cap of 2019 as the program is expected to be implemented primarily in 2017 and 2018 and the management is of the view that it is rather difficult to have a meaningful estimate now as to what or how the government policy will be by 2019.

The amount of the annual cap is in line with management's expectations of the industry trend for gas related products in the PRC, further details of which are set out in the paragraph headed "Information on the parties and reasons for and benefits of entering into the Gas Appliance Purchase Agreements" below.

Ancillary arrangement

In connection with the transactions contemplated under the Gas Appliance Purchase Agreements, the Group also entered into Service Agreements with the Supplier pursuant to which the Group agreed to provide after-sale services, including delivery, installation and repair and maintenance services, to its customers who are users of the Gas and Kitchen Appliances.

INFORMATION ON THE PARTIES AND REASONS FOR AND BENEFITS OF ENTERING INTO THE GAS APPLIANCE PURCHASE AGREEMENTS

The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of compressed natural gas/liquefied natural gas vehicle filling stations in the PRC. As stated in the annual report of the Company for the year ended 31 December 2016, the PRC Government has greatly promoted and encouraged the use of cleaner fuel in combating the worsening pollution problem and the Group is to place more importance on its existing business of the sale of stoves and related equipment, which are more environmentally-friendly products as compared to the traditional models. With the rise in awareness for environmental protection in the PRC, the Company is optimistic that the gas related industry (including the relevant consumer products) in the PRC will continue to grow.

China Gas Holdings Limited is a gas operator and service provider listed on the main board of the Stock Exchange (stock code: 384) and a controlling shareholder of the Company. It primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, and gas logistics systems, transmission of natural gas and liquefied petroleum gas ("LPG") to residential, industrial and commercial users, construction and operation of compressed natural gas/liquefied natural gas refilling stations as well as development and application of technologies relating to natural gas and LPG in China.

The Supplier is a company incorporated in the PRC in May 2015 and one of the principal subsidiaries of China Gas Holdings Limited. It is primarily engaged in the manufacture and sale of household appliances, including gas water heaters, gas stoves, range hood, household disinfection cabinet etc..

Given the Supplier's established history in the gas related product industry, the products and services provided by the Supplier can better suit the needs of the Group. Also, the sizeable production of the Supplier enables the Group to source the Gas and Kitchen Appliances at a relatively more competitive price and on average the Group enjoys a credit period of about three months between the date of

placement of purchase orders and the date of payment. The Group can also benefit from the cooperation with the Supplier with a view to strengthening its existing business segment in the sale of gas stoves and other related household appliances.

In view of the above, the Directors (including the independent non-executive Directors) are also of the view that the terms of the Gas Appliance Purchase Agreements and the proposed annual caps for transactions contemplated thereunder are fair and reasonable and on normal commercial terms and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, China Gas Holdings Limited is the controlling shareholder of the Company interested in approximately 44.04% of the total number of Shares in issue through one of its wholly-owned subsidiaries and has an effective interest of approximately 63.3% in the Supplier. As such, the Supplier is an associate of China Gas Holdings Limited and therefore a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Gas Appliance Purchase Agreements and the Service Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Company should have announced the purchases under the Gas Appliance Purchase Agreements in accordance with Chapter 14A of the Listing Rules when the accumulated amount of purchases first exceeded RMB3,174,000 (equivalent to approximately HK\$3,722,000) (calculated on the basis of the financial information for the financial year ended 31 December 2016), being the equivalent of 0.1% of the relevant size test ratios. The Company regrets that this was not announced at the relevant time during the current financial year and has inadvertently breached Rule 14A.35 of the Listing Rules as the Group only found out that China Gas Holdings Limited had an effective interest of approximately 63.3% in the Supplier in the course of conducting its periodic review of major suppliers when preparing its interim results for the six months ended 30 June 2017. In order to avoid recurrence of this incident, the Group has strengthened its internal control in monitoring all connected transactions across different Group members and provision of specific training to all current and new staff who are responsible for procurement and those who monitor connected transactions for the Group.

As the largest annual caps for the Gas Appliance Purchase Agreements for each of the three years ending 31 December 2019 represent more than 0.1% but less than 5% of the applicable percentage ratios under the Listing Rules, the transactions under the Gas Appliance Purchase Agreements and the annual caps in relation thereto are subject to reporting and announcement requirements but are exempt from circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the relevant percentage ratios for the annual caps contemplated of the transactions under the Service Agreements are less than 0.1%, the Service Agreements and transactions contemplated thereunder are fully exempt from reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

The following terms shall have the meanings as set out below in this announcement, unless the context otherwise requires:

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Zhongyu Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Gas and Kitchen Appliances”	the household appliances, including gas boilers, gas water heaters, gas stoves, range hood, household disinfection cabinet and other kitchen appliances
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Gas Appliance Purchase Agreements”	the sale and purchase agreements entered into from time to time between members of the Group as purchasers and the Supplier as supplier since 1 December 2016, and those agreements to be entered into from the date of the announcement for such period ending 31 December 2019 in relation to the purchase and supply of the Gas and Kitchen Appliances

“Service Agreements”	the service agreements entered into from time to time between members of the Group as service providers and the Supplier as customer since 1 December 2016 and those agreements to be entered into from the date of the announcement for such period ending 31 December 2019 in relation to the provision of after-sale services for the Gas and Kitchen Appliances sold under the Gas Appliance Purchase Agreements
“Shareholder(s)”	holder(s) of issued Share(s)
“Shares”	existing ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Supplier”	Gasbo Electrical and Gas Appliances Co., Ltd. (中燃寶電氣(深圳)有限公司), a company incorporated in the PRC
“%”	per cent.

In this announcement, RMB are translated to HK\$ for illustration purpose only at the rate of RMB1=HK\$1.1726.

By order of the Board
Zhongyu Gas Holdings Limited
Wang Wenliang
Chairman

Hong Kong, 25 August 2017

As at the date of this announcement, the executive Directors of the Company are Mr. Wang Wenliang, Mr. Lui Siu Keung and Mr. Lu Zhaoheng, the non-executive Director is Mr. Xu Yongxuan and the independent non-executive Directors are Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie.