

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



港華智慧能源有限公司 Towngas Smart Energy Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

CONNECTED TRANSACTION FORMATION OF JOINT VENTURE COMPANY AND INJECTION OF EQUITY INTEREST IN A SUBSIDIARY INTO THE JOINT VENTURE COMPANY

On 22 November 2023, Chaozhou Shenneng, Enfa, Chaosheng (a wholly-owned subsidiary of the Company) and Zongcheng entered into the JV Agreement, pursuant to which they agreed to arrange to establish the JV Company and contribute the initial registered capital of the Company of RMB1 million in cash as to 63.47%, 21.54%, 14.95% and 0.04% respectively. The parties also agreed to increase the registered capital of the JV Company by RMB859,616,060, which is to be contributed by them in proportion to their respective equity interests in the JV Company referred to above through transfer into the JV Company by (1) Chaozhou Shenneng of its 100% equity interest in CS City Gas; (2) Enfa of its entire 60% equity interest in CZ Gas; (3) Chaosheng of its entire 60% equity interest in Fengxi Gas; and (4) Zongcheng of its entire 60% equity interest in Raoping Gas.

As HKCG is a controlling shareholder of the Company and Enfa and Zongcheng are wholly-owned subsidiaries of HKCG, Enfa and Zongcheng are connected persons of the Company under the Listing Rules. The Transactions contemplated under the JV Agreement therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Transactions are more than 0.1% but all of them are less than 5%, the Transactions are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE JV AGREEMENT

Summarised below are the principal terms of the JV Agreement:

Date

22 November 2023

Parties

- (1) Chaozhou Shenneng;
- (2) Enfa (a wholly-owned subsidiary of HKCG);
- (3) Chaosheng (a wholly-owned subsidiary of the Company); and
- (4) Zongcheng (a wholly-owned subsidiary of HKCG).

Formation of the JV Company

The parties agreed to arrange to establish the JV Company and contribute the initial registered capital of the JV Company in cash before 30 November 2024 as follows:

	Amount of capital contribution (RMB)	Percentage of total registered capital
Chaozhou Shenneng	634,700	63.47%
Enfa	215,400	21.54%
Chaosheng	149,500	14.95%
Zongcheng	400	0.04%
Total:	1,000,000	100%

Any party which has made its capital contribution may terminate the JV Agreement if any other party does not duly make its capital contribution and fails to rectify it within one month after receipt of notice from another party which has made its capital contribution, and the party in default will be liable to the other non-defaulting parties for breach of the JV Agreement.

Such capital contribution to be made by Chaosheng will be funded by the Group's internal resources.

Increase in registered capital

The parties also agreed to increase the registered capital of the JV Company by RMB859,616,060, which is to be contributed by transfer of their respective equity interests in the Subject Companies into the JV Company within 30 days from the date of establishment of the JV Company as follows:

	Amount of further capital contribution (RMB)	Subject Company and percentage of equity interest of which to be transferred into the JV Company	Audited book value of shareholders' equity of the Subject Company as at 30 November 2022 (based on the China Accounting Standards for Business Enterprises) (RMB)	Valuation of the Subject Company as at 30 November 2022 (RMB)	Total amount of paid up capital contributed after the further capital contribution (RMB)	Percentage of paid up capital before and after the further capital contribution
Chaozhou Shenneng	545,600,000	100% of CS City Gas	148,911,600	545,600,000	546,234,700	63.47%
Enfa	185,199,840	60% of CZ Gas	109,026,300	308,666,400	185,415,240	21.54%
Chaosheng	128,509,800	60% of Fengxi Gas	69,135,600	214,183,000	128,659,300	14.95%
Zongcheng	306,420	60% of Raoping Gas	24,865,100	510,700	306,820	0.04%
Total:	859,616,060				860,616,060	100%

The respective amounts of registered capital to be contributed by the parties to the JV Agreement were determined after arm's length negotiations between the parties with reference to the valuations of the Subject Companies as at 30 November 2022 as appraised by independent valuers in the PRC. The valuers used the asset-based approach and the income approach as the valuation methods to assess the values of the Subject Companies and the valuations were concluded using the income approach.

The remaining 40% equity interests in CZ Gas and Fengxi Gas are owned by Xinhuai (which is principally engaged in investment in oil, natural gas and coal projects; comprehensive development of ecological agriculture and forestry technologies; aquaculture; production and sales of ceramics and ancillary products; real estate development and sales; and housing and civil engineering construction), and the remaining 40% equity interest in Raoping Gas is owned by Huahe Aquaculture Farm (which is principally engaged in breeding and sale of freshwater fish). All these 40% equity holders are ultimately owned by Mr. HUANG Jinsong and his family members. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of these 40% equity holders and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

If the increase in registered capital described above cannot be effected, the JV Company may be dissolved by resolution of the shareholders in accordance with the articles of association of the JV Company.

Shareholders' loans of Raoping Gas

Within 30 days after Raoping Gas becomes a subsidiary of the JV Company, shareholders' loans to the JV Company in an aggregate amount of RMB138 million shall be advanced by Chaozhou Shenneng or its Affiliated Companies as to 51% (i.e. RMB70.38 million) and Enfa or its Affiliated Companies as to 49% (i.e. RMB67.62 million) for a five-year term at an interest rate to be agreed between the parties to the JV Agreement based on the loan prime rate market quotation for terms of five years or more announced by the National Interbank Funding Center. The JV Company shall then provide a loan of the same amount and on the same terms to Raoping Gas to repay shareholder's loans owing to the HKCG Group. The JV Company shall repay such shareholders' loans gradually when it has sufficient cashflow and shall not distribute profits to its shareholders before such loans have been fully repaid.

Profits and losses of the Subject Companies

The profits and losses of each Subject Company during the period between 30 November 2022 and the date of completion of the transfer of the relevant equity interest in the Subject Company to the JV Company shall belong to or be borne by the JV Company, except for any agreements involving external liabilities or contingent liabilities entered into by the Subject Company or guarantees of third party liabilities given by the Subject Company during such period which are outside its normal business needs.

Directors and supervisors of the JV Company

The board of directors of the JV Company shall consist of five directors, of which three shall be nominated by Chaozhou Shenneng (and one of them shall be the chairman), one shall be nominated by Enfa (who shall be the vice chairman) and one shall be nominated by Chaosheng. If the equity interests held by the shareholders of the JV Company change, the number of directors that each party is entitled to nominate shall be adjusted to reflect the proportion of the equity interests held by each party.

The board of supervisors of the JV Company shall consist of three supervisors, of which one shall be nominated by Chaozhou Shenneng (who shall be the chairman), one shall be nominated by Enfa and one shall be nominated by the employees union (or shall be a democratically elected employee representative).

Certain matters in respect of the JV Company and its subsidiaries set out in the JV Agreement shall require the approval of shareholders of the JV Company with more than two-thirds of the voting rights.

Tag-along rights

In the event that Chaozhou Shenneng wishes to transfer its controlling equity interest in the JV Company to a third party (other than its Affiliated Companies), each other shareholder will be entitled to sell its equity interest in the JV Company to such third party under the same terms and conditions.

Undertakings

Chaozhou Shenneng as the controlling shareholder of the JV Company undertakes that (1) it will use commercially reasonable efforts to maintain the existing geographical scope of the city gas business of the JV Company and its subsidiaries; (2) it and its Affiliated Companies will not engage in city gas business within such geographical scope; and (3) it and its Affiliated Companies will not inject other city gas projects into the JV Company.

Each of Enfa, Chaosheng and Zongcheng undertakes that it and its Affiliated Companies will not set up new enterprises within the administrative jurisdiction of the City of Chaozhou to engage in city gas business.

Taking effect and termination of the JV Agreement

The JV Agreement takes effect upon (a) the formation of the joint venture and increase in registered capital stipulated under the JV Agreement having been approved at a shareholders' meeting of Chaozhou Shenneng; and (b) approval of concentration of undertakings required to implement the transactions contemplated under the JV Agreement having been obtained without any conditions.

The JV Agreement will be terminated upon any of the following events occurring before the date of establishment of the JV Company:

- (1) the parties agree in writing to terminate the JV Agreement;
- (2) failure to obtain the approval of concentration of undertakings within six months from the date of the JV Agreement, unless agreed to be extended by the parties;
- (3) a party terminating the JV Agreement due to failure to implement the purposes contemplated under the JV Agreement as a result of the default of any other party; or
- (4) any material adverse event occurs.

After the establishment of the JV Company, if any party no longer holds any equity interest in accordance with the JV Agreement and applicable laws and regulations of the PRC, such party's rights and obligations under the JV Agreement will terminate.

INFORMATION ON THE SUBJECT COMPANIES

Principal business activities

Set out below is a description of the principal business activities of the Subject Companies:

Subject Company	Principal business activities
CS City Gas	Natural gas storage and operation
CZ Gas	Gas operation, heat production and supply, sale of non-electric household appliances and production and sale of non-edible ice
Fengxi Gas	Gas operation, heat production and supply and sale of non-electric household appliances
Raoping Gas	Gas operation, heat production and supply and sale of non-electric household appliances

Financial information

Set out below is certain audited financial information of the Subject Companies prepared in accordance with the China Accounting Standards for Business Enterprises:

CS City Gas

CS City Gas has a registered capital of RMB120.2 million, all of which has been contributed by Chaozhou Shenneng (being the original establishment cost of CS City Gas to Chaozhou Shenneng).

The audited net assets of CS City Gas as at 31 December 2021 and 31 December 2022 were RMB148,448,000 and RMB150,720,000 respectively. The audited net profits of CS City Gas before and after tax for the year ended 31 December 2021 and the year ended 31 December 2022 were as follows:

	For the year ended 31 December 2021 (audited) RMB	For the year ended 31 December 2022 (audited) RMB
Net profit before tax	40,690,000	4,277,000
Net profit after tax	29,709,000	2,272,000

CZ Gas

CZ Gas has a registered capital of HK\$100 million, of which HK\$60 million has been contributed by Enfa (being the original cost of acquisition of the 60% equity interest in CZ Gas to Enfa) and HK\$40 million has been contributed by Xinhuahai.

The audited net assets of CZ Gas as at 31 December 2021 and 31 December 2022 were RMB178,649,000 and RMB108,856,000 respectively. The audited net profits/losses of CZ Gas before and after tax for the year ended 31 December 2021 and the year ended 31 December 2022 were as follows:

	For the year ended 31 December 2021 (audited) RMB	For the year ended 31 December 2022 (audited) RMB
Net profit/(loss) before tax	60,419,000	(44,742,000)
Net profit/(loss) after tax	46,440,000	(44,793,000)

Fengxi Gas

Fengxi Gas has a registered capital of RMB60 million, of which RMB36 million has been contributed by Chaosheng (being the original cost of acquisition of the 60% equity interest in Fengxi Gas to Chaosheng) and RMB24 million has been contributed by Xinhuahai.

The audited net assets of Fengxi Gas as at 31 December 2021 and 31 December 2022 were RMB71,739,000 and RMB69,130,000 respectively. The audited net profits/losses of Fengxi Gas before and after tax for the year ended 31 December 2021 and the year ended 31 December 2022 were as follows:

	For the year ended 31 December 2021 (audited) RMB	For the year ended 31 December 2022 (audited) RMB
Net profit/(loss) before tax	5,863,000	(2,775,000)
Net profit/(loss) after tax	4,385,000	(2,610,000)

Raoping Gas

Raoping Gas has a registered capital of HK\$126 million, of which HK\$75.6 million has been contributed by Zongcheng (being the original cost of acquisition of the 60% equity interest in Raoping Gas to Zongcheng) and HK\$50.4 million has been contributed by Huahe Aquaculture Farm.

The audited net assets of Raoping Gas as at 31 December 2021 and 31 December 2022 were RMB38,167,000 and RMB26,271,000 respectively. The audited net profits/losses of Raoping Gas before and after tax for the year ended 31 December 2021 and the year ended 31 December 2022 were as follows:

	For the year ended 31 December 2021 (audited) RMB	For the year ended 31 December 2022 (audited) RMB
Net profit/(loss) before tax	4,487,000	(11,891,000)
Net profit/(loss) after tax	4,446,000	(11,896,000)

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE JV AGREEMENT

The Guangdong Provincial Government issued an implementation plan for accelerating the high-quality development of city natural gas enterprises in the Guangdong Province in 2021. The City of Chaozhou is one of the pilot cities for the comprehensive reform of city gas enterprises under the plan. The Government of the City of Chaozhou takes the leading role in promoting the construction of “One City, One Enterprise” in the City of Chaozhou. Chaozhou Shenneng, with its State-owned background, will consolidate the gas companies in the city, optimise resources allocation and share high-quality development results in the market. The establishment of the JV Company can take advantage of the State-owned background of Chaozhou Shenneng to improve the gas operation status of the Group in the Chaozhou area, share resources with Chaozhou Shenneng and the HKCG Group, broaden the customer base and increase the overall sale of gas. By leveraging on the franchise right of Chaozhou Shenneng to develop pipeline gas sources, Fengxi Gas, CZ Gas and Raoping Gas can eliminate their dependence on liquefied natural gas (which has relatively large price fluctuations) and maintain a relatively stable dollar margin and promote development.

The Directors (including the independent non-executive Directors) consider that notwithstanding that the transactions contemplated under the JV Agreement are not in the ordinary and usual course of business of the Group, the terms of the JV Agreement and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION

The unaudited gain before taxation and after transaction costs and expenses which the Group expects to recognise on the disposal under the Transactions is approximately RMB4 million. Such gain is calculated based on the consideration receivable (being the increase in the fair value of the 14.95% equity interest in the JV Company, which reflects the further capital contribution of RMB128,509,800 by Chaosheng, on the basis of the relevant equity interests in all the Subject Companies having been transferred to the JV Company) less the Group’s unaudited carrying value of the investment in Fengxi Gas as at 31 October 2023 (being approximately RMB124 million), and the costs and expenses in relation to the Transactions.

The actual amount of gain or loss on the Transactions to be recognised by the Group may be different from the above estimate as it will depend on the carrying value of the investment in Fengxi Gas as at completion of the Transactions and is subject to any accounting adjustment and audit.

Upon completion of the Transactions, the Group will cease to have control in Fengxi Gas and accordingly Fengxi Gas will cease to be a subsidiary of the Company and the financial results and net assets of Fengxi Gas which are currently consolidated into the consolidated financial statements of the Group will then cease to be so consolidated. As the Group will have a representative on the board of the JV Company and can participate in the decision making process, the Group’s equity interest in the JV Company will be equity accounted for as an associated company in the consolidated financial statements of the Group.

INFORMATION ON THE PARTIES TO THE JV AGREEMENT

Chaozhou Shenneng is owned as to 51% by Shenzhen Energy Gas Investment Holding Co., Ltd* (深圳能源燃氣投資控股有限公司), and the remaining 49% interest in Chaozhou Shenneng is owned by 3 other shareholders (with each of which owning less than 30%). Shenzhen Energy Gas Investment Holding Co., Ltd* (深圳能源燃氣投資控股有限公司) is owned as to 59.86% by Shenzhen Energy Group Co., Ltd.* (深圳能源集團股份有限公司) (a joint stock limited company established in the PRC and the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000027)), and the remaining 40.14% is owned by 4 other shareholders (with each of which owning less than 30%). The controlling shareholder of Shenzhen Energy Group Co., Ltd.* (深圳能源集團股份有限公司) is the State-owned Assets Supervision and Administration Commission of Shenzhen Municipal People's Government. Chaozhou Shenneng is principally engaged in the investment and construction of gas transmission and distribution pipeline networks, gas filling stations for vessels and automobiles, decentralised natural gas stations, gasification stations and related facilities; engineering information consultation; design, sale, installation and maintenance of gas pipeline networks and related ancillary equipment; sale of gas equipment, gas stoves, gas pipes and related spare parts and building materials; import and export of goods; transportation of dangerous goods; and storage and sale of natural gas and petroleum gas. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Chaozhou Shenneng and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

Enfa is a wholly-owned subsidiary of HKCG and an investment holding company.

Chaosheng is a wholly-owned subsidiary of the Company and an investment holding company.

Zongcheng is a wholly-owned subsidiary of HKCG and an investment holding company.

The Company is an investment holding company and the principal business activities of its subsidiaries are the sales of piped gas and other types of energy, construction of gas pipelines, the sale of gas appliances and related products and other value-added services in the PRC.

The principal business activities of the HKCG Group are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the PRC. Henderson Land Development Company Limited, which is a company listed on the Stock Exchange (Stock Code: 12), is a controlling shareholder of HKCG and through its various wholly-owned subsidiaries holds approximately 41.53% of the total issued shares of HKCG as at the date of this announcement.

LISTING RULES IMPLICATIONS

As HKCG is a controlling shareholder of the Company and Enfa and Zongcheng are wholly-owned subsidiaries of HKCG, Enfa and Zongcheng are connected persons of the Company under the Listing Rules. The Transactions contemplated under the JV Agreement therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Transactions are more than 0.1% but all of them are less than 5%, the Transactions are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As (i) Dr. Lee Ka-kit, a Director, is deemed interested in approximately 41.53% of the total number of issued shares in HKCG, and (ii) Dr. Lee Ka-kit, Mr. Peter Wong Wai-ye, Mr. John Ho Hon-ming and Dr. the Hon. Moses Cheng Mo-chi, all being Directors, are also directors of HKCG, each of them has abstained from voting on the board resolutions to approve the JV Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the JV Agreement and the transactions contemplated thereunder.

DEFINITIONS

“ Affiliated Company ”	in relation to a party to the JV Agreement, an enterprise that is controlled by, or is under common control with, or controls, such party
“ Chaosheng ”	Chao Sheng Investments Limited (潮盛投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“ Chaozhou Shenneng ”	Chaozhou Shenzhen Energy Gas Co., Ltd.* (潮州深能燃氣有限公司), a company established in the PRC with limited liability
“ Company ”	Towngas Smart Energy Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1083)
“ connected person ”	has the same meaning as ascribed to it under the Listing Rules
“ CS City Gas ”	Chaozhou Shenzhen Energy City Gas Development Co., Ltd.* (潮州深能城市燃氣發展有限公司), a company established in the PRC with limited liability on 29 December 2005
“ CZ Gas ”	Chaozhou Hong Kong and China Gas Co., Ltd.* (潮州港華燃氣有限公司), a company established in the PRC with limited liability on 26 January 2006
“ Director(s) ”	director(s) of the Company
“ Enfa ”	Fanico Investments Limited (恩發投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HKCG
“ Fengxi Gas ”	Chaozhou Fengxi Hong Kong and China Gas Co., Ltd.* (潮州楓溪港華燃氣有限公司), a company established in the PRC with limited liability on 15 November 2012

“Group”	the Company and its subsidiaries
“HKCG”	The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3)
“HKCG Group”	HKCG and its subsidiaries, excluding the Group
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Huahe Aquaculture Farm”	Chaozhou Chaoan Guxiang Huahe Aquafarm* (潮州市潮安區古巷華河水產養殖場), an individual proprietorship enterprise established in the PRC
“JV Agreement”	the agreement dated 22 November 2023 entered into between Chaozhou Shenneng, Enfa, Chaosheng and Zongcheng in relation to the formation of the JV Company
“JV Company”	a joint venture company proposed to be named Chaozhou Shenzhen Energy Hong Kong and China Gas Co., Ltd.* (潮州深能港華燃氣有限公司), which is to be established in the PRC pursuant to the JV Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the same meaning as ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan
“Raoping Gas”	Raoping Hong Kong and China Gas Co., Ltd.* (饒平港華燃氣有限公司), a company established in the PRC with limited liability on 5 September 2007
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Companies”	CS City Gas, CZ Gas, Fengxi Gas and Raoping Gas, and each a “Subject Company”

“ Transactions ”	the contribution by Chaosheng of RMB149,500 in cash as initial registered capital of the JV Company and the further contribution by Chaosheng of RMB128,509,800 as registered capital of the JV Company by way of transfer of its entire 60% interest in Fengxi Gas into the JV Company pursuant to the JV Agreement
“ Xinhuahai ”	New HuaHai Group Co., Ltd.* (新華海集團有限公司), a company established in the PRC with limited liability
“ Zongcheng ”	Apex Time Holdings Limited (宗誠控股有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HKCG

By Order of the Board of Directors
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 22 November 2023

As at the date of this announcement, the Board of Directors comprises:

Non-Executive Directors:

LEE Ka-kit (*Chairman*)

LIU Kai Lap Kenneth

Executive Directors:

Peter WONG Wai-yee (*Chief Executive Officer*)

John HO Hon-ming (*Company Secretary*)

Martin KEE Wai-ngai (*Chief Operating Officer – Gas Business*)

John QIU Jian-hang (*Chief Operating Officer – Renewable Business*)

Independent Non-Executive Directors:

Moses CHENG Mo-chi

Brian David LI Man-bun

James KWAN Yuk-choi

LOH Kung Wai Christine

* *For identification purposes only*