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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)

MAJOR TRANSACTION
EXIT FROM INVESTMENT IN SHANGHAI GAS CO., LTD.*

A letter from the Board is set out on pages 4 to 12 of this circular.

* *For identification purposes only*

14 June 2023

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Business Day”	a statutory working day of the PRC, i.e. a day other than a rest day or statutory holiday
“Capital Reduction”	the reduction of the capital of Shanghai Gas by the entire amount contributed by the Company for the Consideration
“Capital Reduction Agreement”	the agreement for the Capital Reduction dated 23 May 2023 entered into between the Parties
“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) and indirectly held as to approximately 66.36% by HKCG
“Completion”	completion of the Capital Reduction
“Conditions Precedent”	the conditions precedent to payment of the Consideration by Shanghai Gas to the Company as set out in the section headed “ <i>Letter from the Board – The Capital Reduction Agreement – Conditions precedent to payment of Consideration</i> ” of this circular
“Consideration”	the cash consideration of RMB4,662,577,702.32 payable by Shanghai Gas to the Company for the Capital Reduction pursuant to the Capital Reduction Agreement
“Director(s)”	director(s) of the Company
“Exit”	the exit of the Company from its 25% equity interest in Shanghai Gas through the Capital Reduction
“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)

DEFINITIONS

“HKCG Group”	HKCG and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Immediate Shareholders”	Planwise Properties Limited, Superfun Enterprises Limited and Hong Kong & China Gas (China) Limited, all being wholly-owned subsidiaries of HKCG
“Latest Practicable Date”	8 June 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	Shanghai Gas, the Company and Shenergy Group
“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 circular excludes the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan
“Proposed Southbound Subscription”	the proposed issue of ordinary Shares by the Company to Shanghai Gas pursuant to the agreement on deepening the cooperation between the Company and Shanghai Gas dated 27 October 2020 entered into between the Company and Shanghai Gas as referred to in the joint announcement of HKCG and the Company dated 27 October 2020 (as subsequently supplemented) with a view to achieving a cross-shareholding of 25% between Shanghai Gas and the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Shanghai Gas”	Shanghai Gas Co., Ltd.* (上海燃氣有限公司), a company established in the PRC with limited liability
“Shenergy Group”	Shenergy (Group) Company Limited* (申能(集團)有限公司), a wholly state-owned enterprise established in the PRC with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taking Effect Conditions”	the conditions to the Capital Reduction Agreement becoming effective as set out in the section headed “ <i>Letter from the Board – The Capital Reduction Agreement – Conditions to the Capital Reduction Agreement becoming effective</i> ” of this circular
“Termination Agreement”	the agreement dated 23 May 2023 entered into between the Parties in relation to the termination of the Proposed Southbound Subscription, the shareholders’ agreement in relation to Shanghai Gas dated 27 October 2020 entered into amongst the Parties and the articles of association of Shanghai Gas dated 27 October 2020

* For identification purposes only

English names of the PRC established companies/entities in this circular (including those with an asterisk ()) are only translations of their official Chinese names. In case of inconsistencies, the Chinese names of such companies/entities shall prevail.*

LETTER FROM THE BOARD



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)

Non-Executive Directors:

Dr. Lee Ka-kit (*Chairman*)
Mr. Liu Kai Lap Kenneth

Executive Directors:

Mr. Peter Wong Wai-yee (*Chief Executive Officer*)
Mr. John Ho Hon-ming (*Company Secretary*)
Mr. Martin Kee Wai-ngai
(Chief Operating Officer – Gas Business)
Dr. John Qiu Jian-hang
(Chief Operating Officer – Renewable Business)

Registered Office:

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of

Business in Hong Kong:
23rd Floor, 363 Java Road
North Point, Hong Kong

Independent Non-Executive Directors:

Dr. the Hon. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi
Dr. Loh Kung Wai Christine

14 June 2023

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
EXIT FROM INVESTMENT IN SHANGHAI GAS CO., LTD.*

Reference is made to the joint announcement issued by the Company and HKCG on 23 May 2023 in relation to the exit of the Company from its entire investment of 25% equity interest in Shanghai Gas through a reduction of the capital of Shanghai Gas and termination of the Proposed Southbound Subscription.

LETTER FROM THE BOARD

This circular is despatched to the Shareholders for information purposes only. No general meeting is required to be convened to approve the terms of, and the transactions contemplated under, the Capital Reduction Agreement and the Termination Agreement, including but not limited to the disposal by the Company of its 25% equity interest in Shanghai Gas, as the Immediate Shareholders comprising (a) Planwise Properties Limited, (b) Superfun Enterprises Limited and (c) Hong Kong & China Gas (China) Limited (each a wholly-owned subsidiary of HKCG), holding (a) 183,164,833 Shares, (b) 3,116,716 Shares and (c) 1,976,254,212 Shares respectively (representing in aggregate approximately 66.36% of the total Shares having the right to attend and vote at a general meeting of the Company) gave their written approval of the Capital Reduction on 23 May 2023, pursuant to Rule 14.44 of the Listing Rules.

Furthermore, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder has any material interest in the Capital Reduction. As such, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the aforesaid.

The purpose of this circular is to provide you with, among others, (i) further details of the Capital Reduction; and (ii) certain other information required to be disclosed under the Listing Rules or otherwise required by the Stock Exchange.

INTRODUCTION

As jointly announced by the Company and HKCG on 23 May 2023, the Company entered into:

- (a) the Capital Reduction Agreement with Shanghai Gas and Shenergy Group, pursuant to which the Parties agreed to the exit of the Company from its entire investment of 25% equity interest in Shanghai Gas through a reduction of the capital of Shanghai Gas by the amount contributed by the Company for a consideration of RMB4,662,577,702.32 payable by Shanghai Gas to the Company; and
- (b) the Termination Agreement with Shanghai Gas and Shenergy Group, pursuant to which the Parties agreed to terminate the Proposed Southbound Subscription, the shareholders' agreement in relation to Shanghai Gas dated 27 October 2020 entered into amongst the Parties and the articles of association of Shanghai Gas dated 27 October 2020 upon the Capital Reduction Agreement becoming effective.

LETTER FROM THE BOARD

THE CAPITAL REDUCTION AGREEMENT

Date

23 May 2023

Parties

- (1) Shanghai Gas;
- (2) the Company; and
- (3) Shenergy Group.

Capital Reduction

The Parties agreed to the exit of the Company from its entire investment of 25% equity interest in Shanghai Gas through a reduction of the registered capital of Shanghai Gas from RMB1,333,333,333 to RMB1,000,000,000 by the amount contributed by the Company of RMB333,333,333 and the reduction of capital reserves of Shanghai Gas by the amount of RMB4,329,244,369.32.

Consideration

The Consideration payable by Shanghai Gas to the Company is RMB4,662,577,702.32, which was determined after arm's length negotiations between the Parties (with the Company taking into account (i) the original consideration of RMB4.7 billion for acquiring the 25% equity interest in Shanghai Gas; (ii) the significant consolidated net losses after tax incurred by Shanghai Gas and its subsidiaries of approximately RMB483 million and RMB2,911 million for the years ended 31 December 2021 and 31 December 2022 respectively; (iii) the market conditions as at 28 February 2023; and (iv) the Consideration being above the Group's unaudited carrying value of the investment in Shanghai Gas as at 28 February 2023 of approximately RMB4,047 million, and concluded that the Consideration was commercially acceptable, fair and reasonable and in the interests of the Company and Shareholders as a whole) and with reference to the net asset value of Shanghai Gas as at 28 February 2023 of RMB18,650,310,809.26 as appraised by a PRC-based valuer engaged by Shanghai Gas. The Company did not participate in and had no control over such valuation commissioned by Shanghai Gas and accordingly did not place any reliance thereon.

LETTER FROM THE BOARD

Conditions to the Capital Reduction Agreement becoming effective

The Capital Reduction Agreement would become effective upon satisfaction of the following conditions:

- (a) the Capital Reduction having been approved by the Shareholders at a general meeting or, if permitted under applicable laws (including but not limited to the Listing Rules), by the majority Shareholders in writing;
- (b) the Capital Reduction having been approved by the internal decision-making body of Shenergy Group; and
- (c) the Capital Reduction having been approved by the shareholders of Shanghai Gas at a general meeting.

As at the Latest Practicable Date, all of the above conditions had been satisfied.

Conditions precedent to payment of Consideration

The Consideration shall be paid by Shanghai Gas to a bank account designated by the Company within 10 Business Days after completion of the registration of change of market entity in respect of Shanghai Gas, tax registration and the foreign exchange (or cross-border RMB payment) registration/filing procedures required for remittance of the Consideration in relation to the Capital Reduction.

As at the Latest Practicable Date, all of the aforementioned registration/filing procedures were still in progress.

Signing of documents and obtaining approvals

The Parties agreed:

- (a) to sign other documents in relation to the Capital Reduction and the corresponding amendments to the articles of association of Shanghai Gas, including board and shareholders' resolutions of Shanghai Gas and agreement for termination of the shareholders' agreement in respect of Shanghai Gas; and
- (b) to cooperate and use best endeavours to obtain all necessary approvals and complete all necessary registrations, filings and notifications for the Capital Reduction as soon as possible, including to sign any necessary and reasonable documents required by government departments and banks.

LETTER FROM THE BOARD

Transitional arrangements

The Company shall ensure the resignations of the director, supervisor, deputy general manager and deputy financial manager of Shanghai Gas nominated by the Company before the change of business registration of Shanghai Gas.

In the case of Completion, from 28 February 2023, the Company ceased to have any shareholder's rights of Shanghai Gas. Accordingly, the Company will not enjoy or be liable for any increase or decrease in the net assets of Shanghai Gas from 1 March 2023.

Termination

The Capital Reduction Agreement may be terminated by agreement between the Parties, including upon occurrence of certain events of force majeure.

THE TERMINATION AGREEMENT

On 23 May 2023, the Company also entered into the Termination Agreement with Shanghai Gas and Shenergy Group, pursuant to which the Parties agreed to terminate the Proposed Southbound Subscription, the shareholders' agreement in relation to Shanghai Gas dated 27 October 2020 entered into amongst the Parties and the articles of association of Shanghai Gas dated 27 October 2020 upon the Capital Reduction Agreement becoming effective.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, save for the Company's 25% equity interest in Shanghai Gas, Shanghai Gas and Shenergy Group and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

INFORMATION ON SHANGHAI GAS

Shanghai Gas is a company established in the PRC with limited liability. The principal business of Shanghai Gas and its subsidiaries includes piped gas operation, construction, operation and management of piped gas infrastructures, liquefied natural gas terminals and storages, sale of gas-related construction materials, appliances and utilities, gas-related quality control services, and gas-related technology development, consultation, services and transfer.

Set out below is certain audited consolidated financial information of Shanghai Gas and its subsidiaries (prepared in accordance with the China Accounting Standards for Business Enterprises) for the two financial years ended 31 December 2021 and 31 December 2022 and as at 31 December 2021 and 31 December 2022.

LETTER FROM THE BOARD

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2022 RMB'000
Net loss before taxation	(377,425)	(2,962,257)
Net loss after taxation	(483,285)	(2,911,055)
	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Net assets	10,947,235	7,441,686

Shanghai Gas is owned as to 25% by the Company and 75% by Shenergy Group. Upon Completion, the Company will cease to have any equity interest in Shanghai Gas.

REASONS FOR AND BENEFITS OF THE EXIT

In year 2022, Shanghai has gone through the COVID-19 pandemic. Shanghai Gas, as an important utility service provider of Shanghai, has made significant efforts and contributions in securing the supply of natural gas in Shanghai during and after the pandemic. At the moment, Shanghai is actively deploying comprehensive economic recovery measures after the pandemic. Shanghai Gas, as an important utility service provider, is actively performing its social responsibilities of, among others, securing the supply of natural gas and stabilising the energy costs. HKCG and the Company, as utility service operators and partners of Shanghai Gas, witnessed and recognise the importance of such task and the enormity of the responsibilities.

In view of the above reasons and taking into account other factors, and after amicable negotiations between the Parties, it is agreed that given the current environment of recovery from the pandemic, the exit of the Company from the equity interest in Shanghai Gas will give Shanghai Gas more room and flexibility for its operations at this critical and important moment, and therefore the above arrangement for the Company to exit its 25% equity interest in Shanghai Gas has been made after amicable negotiations between the Parties. It is considered by the Parties that the above arrangement facilitates the continuing performance by Shanghai Gas of its social responsibilities and the supply of stable and affordable energy to the public in Shanghai, in order to be able to make due contributions to the economic recovery and development of Shanghai.

LETTER FROM THE BOARD

HKCG and the Company witnessed the willingness of the relevant authorities of the Shanghai government, the Shenergy Group and Shanghai Gas in taking decisive actions in response to the impact of the pandemic on the livelihood of the community, and thereby strengthened the confidence in Shanghai in the future. The Exit will not affect the further establishment of in-depth strategic partnership between the Company, Shenergy Group and Shanghai Gas. The Parties will establish deep and solid strategic relationships in the fields of, among others, natural gas resources and supply chain, renewable energy business, extended services, energy and low-carbon technology.

The Directors (including the independent non-executive Directors) consider that the terms of the Capital Reduction Agreement and the Termination 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 as a whole.

The Company intends to utilise the net proceeds from the Exit (after transaction costs and expenses) of approximately RMB4,660 million for the Group's general working capital purpose as follow:

Intended use of net proceeds	Amount of the net proceeds raised <i>RMB Billion</i>
Investment in PRC projects	2.50
Refinancing of bank loans/bonds and interest payments	2.16

FINANCIAL EFFECTS OF THE EXIT

The Group expects to recognise an unaudited net gain before taxation and after transaction costs and expenses on the Exit of approximately RMB613 million (equivalent to approximately HK\$695 million), which is calculated based on the Consideration of RMB4,662,577,702.32 less the Group's unaudited carrying value of the investment in Shanghai Gas as at 28 February 2023 of approximately RMB4,047 million and the costs and expenses in relation to the Exit. Upon Completion, the total assets of the Group is expected to increase by approximately RMB613 million (equivalent to approximately HK\$695 million) and there would be no material impact on the total liabilities of the Group. The actual financial impact of the Exit on the Group may be different from such estimate as it will depend on the carrying value of the investment in Shanghai Gas as at Completion and is subject to any accounting adjustment and audit.

Upon Completion, the Group will cease to have any equity interest in Shanghai Gas and accordingly the financial results and net assets of Shanghai Gas will then cease to be equity accounted for in the consolidated financial statements of the Group.

LETTER FROM THE BOARD

INFORMATION ON SHENERGY GROUP

Shenergy Group is a wholly state-owned enterprise established in the PRC with limited liability. The principal business of Shenergy Group and its subsidiaries is the production and supply of electricity and gas, investment, construction and management of gas infrastructures including liquefied natural gas terminals and storages and investments in financial institutions. The subsidiaries of Shenergy Group include Shenergy Company Limited* (申能股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600642).

INFORMATION ON THE 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 Company is a subsidiary of HKCG.

LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios in respect of the Capital Reduction exceeds 25% but is below 75%, the Capital Reduction constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, shareholders' approval for a major transaction may be obtained by way of written shareholders' approval in lieu of holding a general meeting if (a) no shareholder is required to abstain from voting if the listed company were to convene a general meeting for the approval of the transaction; and (b) the written shareholders' approval has been obtained from a shareholder of the listed company or a closely allied group of shareholders who together hold more than 50% of the voting rights at that general meeting to approve the transaction. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Capital Reduction. As at 23 May 2023 and the Latest Practicable Date, HKCG (through its wholly-owned subsidiaries, (i) Planwise Properties Limited, (ii) Superfun Enterprises Limited and (iii) Hong Kong & China Gas (China) Limited, holding (i) 183,164,833 Shares, (ii) 3,116,716 Shares and (iii) 1,976,254,212 Shares respectively) held a total of 2,162,535,761 Shares, representing approximately 66.36% of the total issued Shares having the right to attend and vote at a general meeting of the Company. On 23 May 2023, the Company obtained an irrevocable and unconditional written approval of the Capital Reduction from the Immediate Shareholders. Accordingly, the Board does not intend to convene a general meeting of the Company for obtaining shareholders' approval of the Capital Reduction as a major transaction of the Company.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Towngas Smart Energy Company Limited
John Ho Hon-ming
Executive Director and Company Secretary

* *For identification purposes only*

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group (i) for the year ended 31 December 2022 is disclosed in the 2022 annual report of the Company published on 14 April 2023, (ii) for the year ended 31 December 2021 is disclosed in the 2021 annual report of the Company published on 13 April 2022, and (iii) for the year ended 31 December 2020 is disclosed in the 2020 annual report of the Company published on 15 April 2021, all of which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.towngassmartenergy.com).

2. STATEMENT OF INDEBTEDNESS

As at 30 April 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$21,281 million which comprises unsecured convertible bonds in the principal amount and accrued but unpaid interest of approximately HK\$2,225 million, bank loans and other loans of approximately HK\$18,885 million, amounts due to ultimate holding company and non-controlling Shareholders of approximately HK\$85 million and loans from ultimate holding company, non-controlling Shareholders, an associate and joint ventures of approximately HK\$86 million. In addition, as at 30 April 2023, the Group had lease liabilities of approximately HK\$86 million.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at 30 April 2023, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts or loans or liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Capital Reduction, the internal resources available to the Group, presently available source of funds from a medium term note programme, banking facilities and facilities from HKCG, in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Although the Chinese mainland's city gas industry faced a myriad of challenges in 2022, the demand for natural gas is bound to pick up as social and economic activities continue to recover. Energy transformation and ongoing upgrading, as well as the continuing rate of urban expansion in the post-epidemic era, will also contribute to this growing market. The demand for residential gas is also expected to grow steadily, and new demand from customers in industries such as lithium batteries and photovoltaic glass will also soar. As such, natural gas will see many new growth opportunities.

The country requires greater acceleration in the development of renewable energy, with non-fossil energy accounting for 20% of energy consumption by 2025 and 25% by 2030. Guided by these policies and goals, the installed capacity of the Chinese mainland's new photovoltaic power generation nearly doubled in 2022, with the installed capacity of industrial and commercial distributed photovoltaics enjoying the fastest growth. Renewable energy on the Chinese mainland, as represented by photovoltaics and energy storage, is growing rapidly. As the unit cost of electricity continues to decline in this area, market competitiveness will be enhanced, maintaining optimistic growth into the future.

Hydrogen is an energy with tremendous potential among non-fossil energies and is expected to become an important means for the Chinese mainland to achieve its goals for carbon peak and carbon neutrality. Based on the national hydrogen energy development plan and the Group's research on hydrogen doping in pipelines, the Group has begun preliminary work in the Group's pilot project for hydrogen doping in natural gas pipelines.

The Group will continue to improve ESG efforts and constantly pay attention to and promote the sustainable development of both the society and the world.

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' interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company 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) which were required pursuant to: (a) Divisions 7 to 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares:

Name of company	Name of Director	Capacity	Interest in shares			Number of underlying shares pursuant to share options (Note 1)	Aggregate interest	Approximate percentage of the number of issued shares of the Company or its associated corporation as at the Latest Practicable Date
			Personal interest	Family interest	Other interest			
The Company	Lee Ka-kit (Note 2)	Discretionary beneficiary of discretionary trusts	-	-	2,162,535,761	-	2,162,535,761	66.36%
	Peter Wong Wai-yee	Beneficial owner	5,120,000	-	-	1,800,000	6,920,000	0.21%
	John Ho Hon-ming	Beneficial owner	2,033,862	-	-	900,000	2,933,862	0.09%
	Martin Kee Wai-ngai	Beneficial owner	900,000	-	-	900,000	1,800,000	0.06%
	John Qiu Jian-hang	Beneficial owner	1,350,000	-	-	1,350,000	2,700,000	0.08%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	-	-	-	2,265,000	0.07%
	HKCG	Lee Ka-kit (Note 3)	Discretionary beneficiary of discretionary trusts	-	-	7,748,692,715	-	7,748,692,715
	John Ho Hon-ming	Beneficial owner	55,710	-	-	-	55,710	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	121,275	142,299	-	-	263,574	0.00%

Notes:

1. These underlying Shares (being regarded for the time being as unlisted physically settled equity derivatives) represent share options granted by the Company under its existing share option scheme adopted pursuant to an ordinary resolution of the Company passed on 26 May 2022 and approved by an ordinary resolution of the shareholders of HKCG on 6 June 2022. Details of such share options held by the Directors as at the Latest Practicable Date were as follows:

Name of Director	Date of grant	Exercise period	Vesting date	Exercise price (HK\$)	Number of option Shares outstanding as at the Latest Practicable Date
Peter Wong Wai-yee	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	1,800,000
John Ho Hon-ming	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	900,000
Martin Kee Wai-ngai	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	900,000
John Qiu Jian-hang	25.11.2022	25.11.2023-24.11.2025	25.11.2023	3.40	1,350,000

2. Rimmer (Cayman) Limited (“**Rimmer**”) and Riddick (Cayman) Limited (“**Riddick**”) as trustees of respective discretionary trusts, held units in a unit trust (“**Unit Trust**”). Hopkins (Cayman) Limited (“**Hopkins**”) as trustee of the Unit Trust owned all the issued ordinary shares of Henderson Development Limited (“**Henderson Development**”). Henderson Development was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Henderson Land Development Company Limited (“**Henderson Land Development**”). Dr. Lee Ka-kit, as one of the discretionary beneficiaries of the discretionary trusts, is deemed under the SFO to be interested in 41.53% of the total number of issued shares in HKCG and 2,162,535,761 Shares of the Company representing approximately 66.36% of the total number of issued Shares of the Company.
3. Hopkins owned all the issued ordinary shares which carry the voting rights in the share capital of Henderson Development as trustee of the Unit Trust. Rimmer and Riddick, as trustees of the respective discretionary trusts, held units in the Unit Trust. Dr. Lee Ka-kit as one of the discretionary beneficiaries of the discretionary trusts, was taken to have duties of disclosure in relation to these 7,748,692,715 shares in HKCG by virtue of Part XV of the SFO.

Save as stated above, as at the Latest Practicable Date, there were no other interests or short positions of the Directors and the chief executive of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders' interests

As at the Latest Practicable Date, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in Shares:

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of Shares in issue as at the Latest Practicable Date
Lee Chau-kee	Interest of controlled corporations	2,162,535,761 <i>(Note 1)</i>	66.36%
Rimmer	Trustee	2,162,535,761 <i>(Note 2)</i>	66.36%
Riddick	Trustee	2,162,535,761 <i>(Note 2)</i>	66.36%
Hopkins	Interest of controlled corporations	2,162,535,761 <i>(Note 2)</i>	66.36%
Henderson Development	Interest of controlled corporations	2,162,535,761 <i>(Note 2)</i>	66.36%
Henderson Land Development	Interest of controlled corporations	2,162,535,761 <i>(Note 2)</i>	66.36%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	2,162,535,761 <i>(Note 2)</i>	66.36%
HKCG	Interest of controlled corporations	2,162,535,761 <i>(Note 3)</i>	66.36%

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the number of Shares in issue as at the Latest Practicable Date
Towngas International Company Limited (“ TICL ”)	Interest of controlled corporation	1,976,254,212 (<i>Note 3</i>)	60.65%
Hong Kong & China Gas (China) Limited (“ HK&CG (China) ”)	Beneficial owner	1,976,254,212 (<i>Note 3</i>)	60.65%
Towngas Investment Company Limited (“ TICL-HK ”)	Interest of controlled corporations	186,281,549 (<i>Note 3</i>)	5.72%
Planwise Properties Limited (“ Planwise ”)	Beneficial owner	183,164,833 (<i>Note 3</i>)	5.62%
Tang Kok Yew	Interest of controlled corporations	471,050,984 (<i>Note 4</i>)	14.46%
Capstar Holdings (“ Capstar ”)	Interest of controlled corporations	471,050,984 (<i>Note 4</i>)	14.46%
Affinity Fund V General Partner Limited (“ Affinity Fund V ”)	Interest of controlled corporations	471,050,984 (<i>Note 4</i>)	14.46%
Converging Worldview Investments Pte. Ltd. (“ Converging Worldview ”)	Interest of controlled corporations	471,050,984 (<i>Note 4</i>)	14.46%
Clean Energy Ecosystem Pte. Ltd. (“ Clean Energy Ecosystem ”)	Beneficial owner	471,050,984 (<i>Note 4</i>)	14.46%
Central Huijin Investment Ltd. (“ Central Huijin ”)	Interest of controlled corporation	350,350,000 (<i>Note 5</i>)	10.75%
Industrial and Commercial Bank of China Limited (“ ICBC ”)	Interest of controlled corporation	350,350,000 (<i>Note 5</i>)	10.75%
ICBC International Holdings Limited (“ ICBC International ”)	Interest of controlled corporation	350,350,000 (<i>Note 5</i>)	10.75%
ICBC International Investment Management Limited (“ ICBC International Management ”)	Interest of controlled corporation	350,350,000 (<i>Note 5</i>)	10.75%
Victory Ride Holdings Limited (“ Victory Ride ”)	Interests held jointly with another person	350,350,000 (<i>Note 5</i>)	10.75%

Notes:

- The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau-kee. Dr. the Hon. Lee Shau-kee was therefore taken to be interested in the same 2,162,535,761 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust (“**Unit Trust**”). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of Henderson Development. Henderson Development was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Henderson Land Development. Henderson Land Development through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, Henderson Development, Henderson Land Development and Faxson was therefore taken to be interested in the same 2,162,535,761 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,976,254,212 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited (“**Superfun**”) were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 186,281,549 Shares, which included (a) the 183,164,833 Shares held by Planwise; and (b) the 3,116,716 Shares held by Superfun by virtue of Part XV of the SFO.
4. Mr. Tang Kok Yew was taken to be interested in these 471,050,984 Shares which were held by Clean Energy Ecosystem through his controlled corporations Capstar, Affinity Fund V and Converging Worldview, including (i) 116,783,333 Shares (representing approximately 3.58% of the number of issued Shares as at the Latest Practicable Date); and (ii) unlisted convertible bonds, which may be fully converted into 354,267,651 Shares based on the conversion price (subject to adjustment events) of HK\$6.26 per Share (as adjusted after the allotment of issue of scrip Shares pursuant to the scrip dividend scheme of the Company on 12 July 2022), pursuant to the subscription agreement dated 25 October 2021.
5. Central Huijin was taken to have acquired a security interest in these unlisted convertible bonds, which might be fully converted into 350,350,000 Shares through its controlled corporations, ICBC, ICBC International, ICBC International Management and Victory Ride. Victory Ride held these security interests of unlisted convertible bonds jointly with another person. The interests were disclosed according to the disclosure of interest filing made by each of Victory Ride, Central Huijin, ICBC, ICBC International and ICBC International Management on 17 August 2022.

Save as disclosed above, the Directors are not aware that there is any person (other than any Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or a short position in the Shares and 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, or which were required to be entered into the register required to be kept under Section 336 of the SFO.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date:

- (a) none of the Directors had entered or was proposing to enter into any service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation;
- (b) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up, 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; and
- (c) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

4. COMMON DIRECTORS

The following is a list of the Directors who, as at the Latest Practicable Date, were also directors of the following companies which had interests in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of common directors	Name of company
Dr. Lee Ka-kit	Henderson Land Development HKCG
Mr. Peter Wong Wai-yee	HKCG
Mr. John Ho Hon-ming	HKCG
Dr. the Hon. Moses Cheng Mo-chi	HKCG

5. COMPETING INTERESTS

As at the Latest Practicable Date, the following Directors were considered to have interests in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group, within the meaning of the Listing Rules, as set out below:

Dr. Lee Ka-kit, the Chairman and a non-executive Director of the Company, is one of the Chairmen and a non-executive director of HKCG; Mr. Peter Wong Wai-ye, an executive Director and the Chief Executive Officer of the Company, is an executive director and the managing director of HKCG; Mr. John Ho Hon-ming, an executive Director and the company secretary of the Company, is an executive director of HKCG; and Dr. the Hon. Moses Cheng Mo-chi, an independent non-executive Director of the Company, is an independent non-executive director of HKCG.

HKCG and its subsidiaries (excluding the Group) are principally engaged in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the PRC. Although some of the businesses carried out by the HKCG Group (excluding the Group) are similar to the businesses carried out by the Group, they are of different scales and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group (excluding the Group) do not compete directly with the businesses of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any businesses (apart from the businesses of the Group) which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business carried on or intended to be carried on by the Group), were entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

- (a) an agreement dated 24 September 2021 entered into between Towngas Investments Limited* 港華燃氣投資有限公司 (an indirect wholly-owned subsidiary of the Company, “**Towngas China Investments**”) and Towngas Lifestyle (Shenzhen) Information Services Co., Ltd.* 名氣家(深圳)信息服務有限公司 (an indirect wholly-owned subsidiary of HKCG, “**Towngas Lifestyle (Shenzhen)**”), pursuant to which Towngas Lifestyle (Shenzhen) agreed to inject capital of RMB15,000,000 into Towngas Cosy Home (Chengdu) Technological Services Co., Ltd.* 港華舒適家(成都)科技服務有限公司 (a then indirect wholly-owned subsidiary of the Company “**Cosy Home (Chengdu)**”) to acquire a 60% equity interest in Cosy Home (Chengdu) and the articles of Cosy Home (Chengdu) signed by Towngas China Investments and Towngas Lifestyle (Shenzhen) on 24 September 2021, details of which are set out in the announcement of the Company dated 24 September 2021;
- (b) a subscription agreement dated 25 October 2021 entered into between the Company and Clean Energy Ecosystem Pte. Ltd. (the “**Investor**”), pursuant to which the Investor conditionally agreed to subscribe for, and the Company conditionally agreed to issue, (i) 116,783,333 Shares at a subscription price of HK\$583,916,665 (equivalent to HK\$5.00 per Share); and (b) 1% unsecured convertible bonds due 2026 in the principal amount of RMB1,835,603,119.35 (equivalent to HK\$2,217,715,500 at the exchange rate agreed with the Investor) with an initial conversion price of HK\$6.33 per Share, details of which are set out in the announcement of the Company dated 25 October 2021;

- (c) 31 transfer agreements all dated 3 December 2021 entered into between Towngas China Energy Investment Limited* 港華能源投資有限公司 (an indirect wholly-owned subsidiary of the Company, “TCEI”) and Hong Kong and China Integrated Power Investment (Shenzhen) Limited* 港華綜合電能投資(深圳)有限公司 (an indirect wholly-owned subsidiary of HKCG, “HCIP”), pursuant to which HCIP agreed to sell its equity interests in 31 PRC companies listed below to TCEI at the consideration set out below:

Equity interest	Consideration (RMB)
1 100% equity interest in Changsha Towngas China Energy Co., Ltd.* (長沙港能投智慧能源有限公司)	4,905,223
2 100% equity interest in Guangdong Shenggui Electric Power Co., Ltd.* (廣東晟桂電力有限公司)	14,995,015
3 100% equity interest in Anqiu Towngas China PV Power Generation Co., Ltd.* (安丘航洲新能源科技有限公司)	34,000,575
4 100% equity interest in Qingdao Towngas China PV Power Generation Co., Ltd.* (青島嘉嘉通新能源科技有限公司)	28,946,417
5 100% equity interest in Xinye Qidian Photovoltaic Technology Co., Ltd.* (新野縣啟電光伏科技有限公司)	13,654,891
6 100% equity interest in Foshan Towngas China PV Power Generation Co., Ltd.* (佛山振森光能有限公司) (now known as 佛山順德港投智慧能源有限公司)	21,492,211
7 100% equity interest in Jining Daohong New Energy Co., Ltd.* (濟寧道宏新能源有限公司)	10,993,597
8 100% equity interest in Shuyang Zhongye Shukai New Energy Co., Ltd.* (沭陽中鄴沭開新能源有限公司)	30,000,000
9 100% equity interest in Binzhou Xinrunfeng New Energy Co., Ltd.* (濱州鑫潤豐新能源有限公司)	14,999,970
10 100% equity interest in Shenzhen Towngas China Integrated Energy Co., Ltd.* (深圳港華綜合能源有限公司)	13,995,938
11 100% equity interest in Yancheng Towngas China Smart Energy Co., Ltd.* (鹽城港華智慧能源有限公司)	33,995,512
12 100% equity interest in Maanshan Zhengpugang New District Towngas China Photovoltaic Co., Ltd.* (馬鞍山市鄭蒲港新區港能投光伏有限公司)	Nil

Equity interest	Consideration (RMB)
13 100% equity interest in Yantai Towngas China Photovoltaic Co., Ltd.* (煙台港能投光伏有限公司)	Nil
14 100% equity interest in Nanjing Towngas China Energy Co., Ltd.* (南京港能投智慧能源有限公司)	Nil
15 100% equity interest in Qingdao China Photovoltaic Co., Ltd.* (青島港投光伏發電有限公司)	Nil
16 100% equity interest in Xiamen Towngas China Photovoltaic Co., Ltd.* (廈門港能投光伏有限公司)	Nil
17 100% equity interest in Yingkou Towngas China Energy Co., Ltd.* (營口港能投智慧能源有限公司)	Nil
18 100% equity interest in Ben Xi Towngas China Energy Co., Ltd.* (本溪港能投智慧能源有限公司)	Nil
19 100% equity interest in Guangzhou Zhensen New Energy Co., Ltd.* (廣州振森新能源有限公司)	Nil
20 100% equity interest in Wuhan Towngas China Energy Co., Ltd.* (武漢港能投智慧能源有限公司)	Nil
21 100% equity interest in Tangshan Towngas China Integrated Energy Co., Ltd.* (唐山港投綜合智慧能源有限公司)	Nil
22 100% equity interest in Yangtze River Delta Integrated Development Demonstration Zone (Suzhou Wujiang) Towngas China Energy Co., Ltd.* (長三角一體化示範區(蘇州吳江)港能投智慧能源有限公司)	Nil
23 100% equity interest in Cangzhou Towngas China Energy Co., Ltd.* (滄州港能投智慧能源有限公司)	Nil
24 100% equity interest in Xi'an Towngas China Energy Co., Ltd.* (西安港能投智慧能源有限公司)	Nil
25 100% equity interest in Yangjiang Towngas China Photovoltaic Co., Ltd.* (陽江港能投光伏有限公司)	Nil
26 100% equity interest in Guangzhou Towngas China Energy Co., Ltd.* (廣州港能智慧能源有限公司)	Nil
27 60% equity interest in Liyang Hengdian Towngas China PV Power Generation Co., Ltd.* (溧陽恒電新能源科技有限公司)	14,199,424

Equity interest	Consideration (RMB)
28 90% equity interest in Danyang Towngas China Energy Storage Power Plant Co., Ltd.* (丹陽港能投智慧能源有限公司)	27,084,277
29 80% equity interest in Suzhou Guangchen Towngas China PV Power Generation Co., Ltd.* (蘇州光辰新能源科技有限公司)	11,999,948
30 80% equity interest in Taizhou Towngas China Energy Co., Ltd.* (泰州港能智慧能源有限公司)	168,234,090
31 49% equity interest in Dalian DETA Towngas China Energy Co., Ltd.* (大連德泰港能投智慧能源有限公司)	65,709,098

details of which are set out in the announcement of the Company dated 3 December 2021;

- (d) an equity transfer agreement dated 22 April 2022 entered into between Qingdao Zhongji Hong Kong and China Gas Company Limited* (青島中即港華燃氣有限公司)(a 90% owned subsidiary of the Company, “**Qingdao Zhongji**”) and Towngas Home Lifestyle (Qingdao) Information Technology Company Limited* (港華到家(青島)信息技術有限公司)(a non-wholly owned subsidiary of HKCG, “**Towngas Home Lifestyle (Qingdao)**”), pursuant to which Qingdao Zhongji has agreed to sell and Towngas Home Lifestyle (Qingdao) has agreed to purchase 70% equity interest in Qingdao Towngas Cosy Home Services Company Limited* (青島港華舒適家服務有限公司) at the consideration of RMB1,462,758.37, details of which are set out in the announcement of the Company dated 22 April 2022;
- (e) an equity transfer agreement dated 5 December 2022 entered into between Gao Chun Hong Kong and China Gas Co., Ltd.* (南京高淳港華燃氣有限公司)(an indirect wholly-owned subsidiary of the Company, “**Nanjing Gaochun**”) and Hong Kong and China Gas International Energy Trading Co., Ltd.* (港華國際能源貿易有限公司)(an indirect wholly-owned subsidiary of HKCG, “**HKCG International Energy**”), pursuant to which Nanjing Gaochun agreed to sell and HKCG International Energy agreed to purchase the entire equity interest in Nanjing Chungang Energy Technology Co., Ltd.* (南京淳港能源科技有限公司) at the consideration of RMB2,000,000, details of which are set out in the announcement of the Company dated 5 December 2022;

- (f) the Capital Reduction Agreement; and
- (g) the Termination Agreement.

8. MISCELLANEOUS

- (a) The registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is at 23rd Floor, 363 Java Road, North Point, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is Suntera (Cayman) Limited, Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1110, Cayman Islands.
- (d) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The Hong Kong branch share transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (f) The company secretary of the Company is Mr. John Ho Hon-ming, a member of the Hong Kong Institute of Certified Public Accountants.
- (g) Save and except for the Chinese names of the PRC entities (which in the case of any inconsistency, the Chinese version shall prevail), the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.towngassmartenergy.com>) for a period of 14 days from the date of this circular:

- (a) the Capital Reduction Agreement; and
- (b) the Termination Agreement.