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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)

DISCLOSEABLE AND CONNECTED TRANSACTION MERGER OF JOINT VENTURE COMPANIES

THE MERGER AGREEMENT

On 26 September 2024, Towngas Investments (being an indirect wholly-owned subsidiary of the Company) entered into the Merger Agreement with Shandong Towngas, Shandong Jihua, Jinan Energy Group and HKCG (Jinan) (being a wholly-owned subsidiary of HKCG) and the JV Documents with Jinan Energy Group and HKCG (Jinan). Pursuant to the Merger Agreement, which takes effect upon approval of the Merger by the shareholders of the Company at a general meeting, Shandong Jihua is to be merged into and absorbed by Shandong Towngas. Shandong Towngas is currently owned as to 51% by Jinan Energy Group and 49% by HKCG (Jinan), and Shandong Jihua is currently owned as to 51% by Jinan Energy Group and 49% by Towngas Investments. After the Merger, Shandong Towngas will be owned as to 51% by Jinan Energy Group, as to 30.3% by HKCG (Jinan) and as to 18.7% by Towngas Investments, and Shandong Jihua will cease to exist as a legal entity.

The Merger is conducted by the existing shareholders of Shandong Jihua and Shandong Towngas to align with the development strategy in the supply of gas under the “One Net” plan promulgated by Jinan Municipal People’s Government, with a view to taking advantage of and being placed in a leading position in the “One City, One Enterprise” gas supply reform through enlarging the scope and scale of operation and increasing the market share of Shandong Towngas (in which the Group will have an 18.7% equity interest as a result of the Merger) in Jinan City.

LISTING RULES IMPLICATIONS

As HKCG is a controlling shareholder of the Company and HKCG (Jinan) and Shandong Towngas are a wholly-owned subsidiary and an associate (as defined in the Listing Rules) of HKCG respectively, HKCG (Jinan) and Shandong Towngas are connected persons of the Company under the Listing Rules. The Transaction contemplated under the Merger Transaction Agreements therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Transaction involves both an acquisition (being the Shandong Towngas Equity Acquisition) and a disposal (being the Shandong Jihua Equity Disposal). Pursuant to Rule 14.24 of the Listing Rules, the Transaction is classified by reference to the larger of the acquisition or disposal. As the highest of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Shandong Towngas Equity Acquisition and the Shandong Jihua Equity Disposal are each more than 5% but less than 25%, the Transaction also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Transaction is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules and the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further information on the Merger Transaction Agreements and the transactions contemplated thereunder; (ii) the recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Merger Transaction Agreements and the Transaction; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Merger Transaction Agreements and the Transaction; and (iv) a notice convening the EGM, is expected to be despatched to the Shareholders on or before 31 October 2024, which is more than 15 business days after the publication of this announcement as the Company expects additional time will be required to prepare and finalise the relevant information in the circular.

THE MERGER AGREEMENT

Summarised below are the principal terms of the Merger Agreement:

Date

26 September 2024

Parties

- (1) Shandong Towngas;
- (2) Shandong Jihua;
- (3) Jinan Energy Group;
- (4) HKCG (Jinan), a wholly-owned subsidiary of HKCG; and
- (5) Towngas Investments, an indirect wholly-owned subsidiary of the Company.

The Merger

Shandong Towngas is currently owned as to 51% by Jinan Energy Group and 49% by HKCG (Jinan), and Shandong Jihua is currently owned as to 51% by Jinan Energy Group and 49% by Towngas Investments. Pursuant to the Merger Agreement, Shandong Jihua is to be merged into and absorbed by Shandong Towngas. All assets, liabilities and employees of Shandong Jihua (including its equity interests in its subsidiaries and other companies) will be inherited by Shandong Towngas, and Shandong Jihua will cease to exist as a legal entity after the Merger. After the Merger, the registered capital of Shandong Towngas will be the sum of the existing registered capital of Shandong Towngas and Shandong Jihua, and Shandong Towngas will be owned as to 51% by Jinan Energy Group, as to 30.3% by HKCG (Jinan) and as to 18.7% by Towngas Investments.

After arm's length negotiations between the parties, it was agreed for Shandong Towngas to continue to be owned as to 51% by Jinan Energy Group after the Merger, as both Shandong Towngas and Shandong Jihua are currently owned as to 51% by Jinan Energy Group. The respective percentage interests of HKCG (Jinan) and Towngas Investments in Shandong Towngas after the Merger of 30.3% and 18.7% were determined after arm's length negotiations between the parties with reference to the valuations of Shandong Towngas and Shandong Jihua as at 31 March 2024 (being RMB3,330 million and RMB2,056 million respectively) as appraised by an independent valuer using the comparable companies method under the market approach by selecting a number of public companies for comparison and applying their average price-to-book ratio and lack of marketability discount considered by the valuer to be appropriate.

The original total cost of acquisition of the 49% equity interest in Shandong Towngas to HKCG (Jinan) is RMB343 million.

The parties agree to cooperate with each other and use all reasonable endeavours, including taking all actions or signing all necessary documents, to facilitate Shandong Towngas to handle all necessary company registrations, applications, declarations, verifications, filings and notifications in respect of the Merger as soon as possible.

Taking effect of the Merger Agreement

The Merger Agreement takes effect upon approval of the Merger by the shareholders of the Company at a general meeting.

JV DOCUMENTS

Under the JV Documents entered into between Jinan Energy Group, HKCG (Jinan) and Towngas Investments on the date of the Merger Agreement, which are to take effect upon approval of the Merger by the shareholders of the Company at a general meeting:

- (a) the board of directors of Shandong Towngas shall consist of 11 directors, of which 5 shall be nominated by Jinan Energy Group (and 1 of them shall be the chairman), 3 shall be nominated by HKCG (Jinan) (and 1 of them shall be the vice chairman), 2 shall be nominated by Towngas Investments and 1 shall be elected by the employees union;
- (b) the board of supervisors of Shandong Towngas shall consist of 5 supervisors, of which 2 shall be nominated by Jinan Energy Group, 1 shall be nominated by HKCG (Jinan) and 2 shall be nominated by the employees union (or shall be democratically elected employee representatives), with the chairman (who shall be a nominee of Jinan Energy Group) to be elected;
- (c) amendment of the articles of association, increase or decrease in the registered capital or merger, split, dissolution or change in the company form of Shandong Towngas shall require the approval of shareholders with more than two-thirds of the voting rights, and certain other matters in respect of Shandong Towngas set out in the joint venture agreement shall require the unanimous vote of the directors; and
- (d) when a shareholder proposes to transfer any equity interest in Shandong Towngas to a third party (other than to another shareholder), the other shareholders will have pre-emptive rights to acquire such equity interest.

INFORMATION ON SHANDONG TOWNGAS AND SHANDONG JIHUA

Shandong Towngas

Shandong Towngas is a limited liability company established in the PRC with a registered capital of RMB700 million, which has been fully paid up. Shandong Towngas and its subsidiaries are principally engaged in gas operation, gas vehicle refueling operation, construction engineering design, and installation and maintenance of gas burning appliances. Their area of operation within Jinan City under the franchise granted by the government spans from the East Juye River and extends westward towards the east-west demarcation line between the operating areas of Shandong Jihua and Shandong Towngas, whereas the northern boundary starts from the Yellow River and extends southward towards the mountains south of the Jinan Ring Expressway and Jiwang Highway.

Set out below is certain unaudited consolidated financial information of Shandong Towngas and its subsidiaries prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the year ended 31 December 2022	For the year ended 31 December 2023
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before taxation	290,163	233,404
Net profit after taxation	216,129	165,508
	As at	As at
	31 December 2022	31 December 2023
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets	3,085,292	3,191,479

Shandong Jihua

Shandong Jihua is a limited liability company established in the PRC with a registered capital of RMB700 million, which has been fully paid up. Shandong Jihua and its subsidiaries are principally engaged in gas operation, gas vehicle refueling operation, construction engineering design, and installation and maintenance of gas burning appliances. Their area of operation in Jinan City under the franchise granted by the government extends from the eastern boundary, which is the east-west demarcation line between the operating areas of Shandong Jihua and Shandong Towngas, to the Yellow River as the northwestern boundary, while the southern boundary is formed by a contiguous line that includes the Jinan Ring Expressway, the southern mountains of Jinan University Science Park, and the South Dasha River to the Yellow River.

Set out below is certain unaudited consolidated financial information of Shandong Jihua and its subsidiaries prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the year ended 31 December 2022	For the year ended 31 December 2023
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Net (loss) / profit before taxation	(108,878)	5,977
Net loss after taxation	(138,489)	(34,176)
	As at	As at
	31 December 2022	31 December 2023
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets	2,152,571	2,096,114

REASONS FOR AND BENEFITS OF ENTERING INTO THE MERGER TRANSACTION AGREEMENTS

In order to fully implement the “One Net” development plan of building a multi-sourced peak shaving complementary city-wide gas supply system promulgated by Jinan Municipal People’s Government, Shandong Towngas and Shandong Jihua aim to integrate their resources, expand the scale and enhance efficiency through the Merger. After the Merger, Shandong Towngas will have an enlarged scale of operation and scope of services, reinforcing its leading position in the market and seizing the opportunity in the “One City, One Enterprise” gas reform. At the same time, the Merger will integrate the resource advantages of the two parties, optimise asset allocation, and create stronger market competitiveness and risk resilience.

Shandong Towngas and Shandong Jihua occupy leading positions in the city gas market in Jinan City, and have built an extensive network of high pressure and sub-high pressure pipes covering most areas, laying a solid foundation for future integrations of the gas markets in the surrounding cities. In addition, the Merger will create a significant synergy effect with economy of scale, effectively improve the overall efficiency of the enterprise, optimise operational efficiency and reduce the cost structure. The Company as an indirect shareholder of Shandong Towngas after the Merger will continue to benefit from the long-term economic benefits and market advantages brought about by the Merger.

The Directors (including Dr. the Hon. Moses Cheng Mo-chi, an independent non-executive Director, but excluding the members of the Independent Board Committee, namely Mr. Brian David Li Man-bun and Dr. Christine Loh Kung-wai, who will render their views in the circular to be despatched to the Shareholders after considering the advice to be given by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders) consider that notwithstanding that the transactions contemplated under the Merger Transaction Agreements are not in the ordinary and usual course of business of the Group, the terms of the Merger Transaction Agreements 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.

FINANCIAL EFFECTS OF THE TRANSACTION

The unaudited gain before taxation and after transaction costs and expenses which the Group expects to recognise on the Shandong Jihua Equity Disposal is approximately HK\$22 million. Such gain is calculated based on the fair value of the 18.7% equity interest in Shandong Towngas, on the basis of Shandong Jihua having been merged into and absorbed by Shandong Towngas, less the Group's unaudited carrying value of the investment in Shandong Jihua as at 31 March 2024, the costs and expenses in relation to the Merger Transaction Agreements and after making of appropriate accounting adjustments.

The actual amount of gain or loss on the Shandong Jihua Equity Disposal 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 Shandong Jihua as at completion of the Shandong Jihua Equity Disposal and is subject to any accounting adjustment and audit.

Upon completion of the Transaction, Shandong Jihua will be deregistered and accordingly Shandong Jihua will cease to be an associate of the Company. As the Group will have a representative on the board of Shandong Towngas and can participate in its decision making process, the Group's equity interest in Shandong Towngas will be equity accounted for as an associate in the consolidated financial statements of the Group.

INFORMATION ON THE PARTIES TO THE MERGER TRANSACTION AGREEMENTS WHICH HOLD EQUITY INTERESTS IN SHANDONG TOWNGAS AND SHANDONG JIHUA

Jinan Energy Group is a wholly State-owned enterprise established by the approval of the Jinan Municipal People's Government. Its principal business activities are production and supply of heat, supply of pipeline gas and cooling, electricity generation, natural gas refueling stations, hydrogen gas refueling stations, charging piles, urban heating, urban lighting, water conservancy projects, municipal engineering design, construction and operation management, new energy technology research and development, and development of comprehensive energy utilisation (including electricity, gas, solar energy and other energy sources) and services (including investment, design, engineering, technology research and development and operations, etc.).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Jinan Energy Group and its ultimate beneficial owner are third parties independent of the Company and the connected persons of the Company.

Towngas Investments is an indirect wholly-owned subsidiary of the Company 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.

HKCG (Jinan) is a wholly-owned subsidiary of HKCG and an investment holding company. 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 ("Henderson Land"), 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. Henderson Land is an investment holding company and its subsidiaries are principally engaged in the businesses of property development and investment, construction, project management, property management, hotel operation, department store operation and investment holding. The shareholding information of Henderson Land is available on the Stock Exchange's website (<https://www.hkexnews.hk>).

LISTING RULES IMPLICATIONS

As HKCG is a controlling shareholder of the Company and HKCG (Jinan) and Shandong Towngas are a wholly-owned subsidiary and an associate (as defined in the Listing Rules) of HKCG respectively, HKCG (Jinan) and Shandong Towngas are connected persons of the Company under the Listing Rules. The Merger contemplated under the Merger Transaction Agreements therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Transaction involves both an acquisition (being the Shandong Towngas Equity Acquisition) and a disposal (being the Shandong Jihua Equity Disposal). Pursuant to Rule 14.24 of the Listing Rules, the Transaction is classified by reference to the larger of the acquisition or disposal. As the highest of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Shandong Towngas Equity Acquisition and the Shandong Jihua Equity Disposal are each more than 5% but less than 25%, the Transaction also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Transaction is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules and the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Brian David Li Man-bun and Dr. Christine Loh Kung-wai, being independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Merger Transaction Agreements and the Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on voting, taking into account the advice of the Independent Financial Adviser. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. Since Dr. the Hon. Moses Cheng Mo-chi, an independent non-executive Director, is also an independent non-executive director of HKCG, he is considered not to be independent to advise the Independent Shareholders in that regard and was therefore not appointed as a member of the Independent Board Committee.

A circular containing, among other things, (i) further information on the Merger Transaction Agreements and the transactions contemplated thereunder; (ii) the recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Merger Transaction Agreements and the Transaction; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Merger Transaction Agreements and the Transaction; and (iv) a notice convening the EGM, is expected to be despatched to the Shareholders on or before 31 October 2024, which is more than 15 business days after the publication of this announcement as the Company expects additional time will be required to prepare and finalise the relevant information in the circular.

As (i) Dr. the Hon. 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 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 Merger Transaction Agreements and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the Merger Transaction Agreements and the transactions contemplated thereunder.

DEFINITIONS

“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
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for considering and, if thought fit, approving the Merger Transaction Agreements and the transactions contemplated thereunder

“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
“HKCG (Jinan)”	Hong Kong & China Gas (Jinan) Limited, a company established in the British Virgin Islands with limited liability and a wholly-owned subsidiary of HKCG
“Independent Board Committee”	an independent committee of the board of Directors comprising Mr. Brian David Li Man-bun and Dr. Loh Kung Wai Christine, being independent non-executive Directors, formed to advise the Independent Shareholders in relation to the Merger Transaction Agreements and the Transaction
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Merger Transaction Agreements and the Transaction
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM to approve the Merger Transaction Agreements and the Transaction
“Jinan Energy Group”	Jinan Energy Group Co., Ltd.* (濟南能源集團有限公司), a wholly State-owned enterprise established by the approval of Jinan Municipal People’s Government and owned by the Jinan Municipal State-owned Assets Supervision and Administration Commission
“JV Documents”	the revised joint venture agreement and articles of association of Shandong Towngas both dated 26 September 2024 entered into between Jinan Energy Group, HKCG (Jinan) and Towngas Investments
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merger”	the merger by absorption of Shandong Jihua by Shandong Towngas contemplated under the Merger Agreement

“Merger Agreement”	the agreement dated 26 September 2024 entered into between Shandong Towngas, Shandong Jihua, Jinan Energy Group, HKCG (Jinan) and Towngas Investments in relation to the Merger
“Merger Transaction Agreements”	the Merger Agreement and the JV Documents
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Jihua”	Shandong Jihua Gas Co., Ltd.* (山東濟華燃氣有限公司), a company established in the PRC with limited liability
“Shandong Jihua Equity Disposal”	the disposal of Towngas Investments’ 49% equity interest in Shandong Jihua pursuant to the Merger Agreement
“Shandong Towngas”	Shandong Towngas Group Co., Ltd.* (山東港華燃氣集團有限公司), a company established in the PRC with limited liability
“Shandong Towngas Equity Acquisition”	the acquisition of a 18.7% equity interest in Shandong Towngas by Towngas Investments pursuant to the Merger Agreement
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Towngas Investments”	Towngas Investments Limited* (港華燃氣投資有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company

“Transaction”

the Shandong Jihua Equity Disposal and the Shandong Towngas Equity Acquisition

By Order of the Board of Directors

Elsa Wong Lai-kin

Company Secretary

Hong Kong, 26 September 2024

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

Non-Executive Directors:

LEE Ka-kit (*Chairman*)

Kenneth LIU Kai-lap

Independent Non-Executive Directors:

Moses CHENG Mo-chi

Brian David LI Man-bun

Christine LOH Kung-wai

Executive Directors:

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

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

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

** For identification purposes only*