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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

REVISION OF ANNUAL CAP AMOUNTS FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE GAS PURCHASE MASTER AGREEMENT

Reference is made to the announcement of the Company dated 5 December 2018 in relation to, among other matters, the Gas Purchase Master Agreement entered into between the Company and HKCG with respect to the Gas Purchase Transactions for a term commencing from 1 January 2019 to 31 December 2021. On 23 May 2019, the Company entered into the Supplemental Agreement with HKCG to amend the Gas Purchase Master Agreement by revising the Existing Annual Caps to the Revised Annual Caps. Save for the revision of the Existing Annual Caps to the Revised Annual Caps, all other terms and conditions under the Gas Purchase Master Agreement remain the same.

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The entering into of the Supplemental Agreement and the Gas Purchase Transactions contemplated thereunder, which are carried out in the ordinary and usual course of business of the Group and are expected to continue and extend over a period of time, therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Revised Annual Caps exceed HK\$3,000,000 but the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps are greater than 0.1% but less than 5%, the Supplemental Agreement and the Revised Annual Caps are only subject to the reporting, announcement and annual review requirements but are exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 5 December 2018 in relation to, among other matters, the Gas Purchase Master Agreement entered into between the Company and HKCG with respect to the Gas Purchase Transactions for a term commencing from 1 January 2019 to 31 December 2021.

SUPPLEMENTAL AGREEMENT

On 23 May 2019, the Company entered into the Supplemental Agreement with HKCG to amend the Gas Purchase Master Agreement by revising the Existing Annual Caps to the Revised Annual Caps. Save for the revision of the Existing Annual Caps to the Revised Annual Caps, all other terms and conditions under the Gas Purchase Master Agreement remain the same.

Set out below are the principal terms of the Supplemental Agreement.

Date:

23 May 2019

Parties:

- (i) the Company; and
- (ii) HKCG, the controlling shareholder of the Company

Subject matter:

Pursuant to the Supplemental Agreement, the maximum aggregate consideration payable by the Group to the HKCG Group per annum in connection with the Gas Purchase Transactions for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 are amended as follows:

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
Existing Annual Caps	RMB80,000,000 (approximately HK\$93,077,000)	RMB50,000,000 (approximately HK\$58,173,000)	RMB50,000,000 (approximately HK\$58,173,000)
Revised Annual Caps	RMB140,000,000 (approximately HK\$162,885,000)	RMB140,000,000 (approximately HK\$162,885,000)	RMB140,000,000 (approximately HK\$162,885,000)

REASONS FOR REVISING THE EXISTING ANNUAL CAPS AND THE BASIS FOR DETERMINING THE REVISED ANNUAL CAPS

Pursuant to the Gas Purchase Master Agreement, the existing annual caps for the Gas Purchase Transactions for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 were RMB80,000,000 (approximately HK\$93,077,000), RMB50,000,000 (approximately HK\$58,173,000) and RMB50,000,000 (approximately HK\$58,173,000) respectively. The actual amounts paid by the Group in respect of the Gas Purchase Transactions for the year ended 31 December 2018 (as disclosed in the Company's 2018 Annual Report) was RMB138,642,000 (approximately HK\$161,305,000).

In view of the continuous business development of the Group in the PRC, members of the Group in Eastern China region of the PRC have to procure liquefied natural gas from external sources. Furthermore, the distributed energy business of the Group in the PRC has been growing fast, and members of the Group in the PRC had to procure natural gas from external sources to meet the natural gas consumption of the increasing distributed energy projects of the Group. Given that members of the HKCG Group provide better quality gas supply at low prices, it is expected that the quantity of fuel gas to be purchased by members of the Group from members of the HKCG Group will increase. For the three months ended 31 March 2019, the aggregate consideration paid by the Group to the HKCG Group in respect of the Gas Purchase Transactions was RMB69,163,000 (approximately HK\$80,469,000). Accordingly, the Existing Annual Caps provided for in the Gas Purchase Master Agreement will not be sufficient to meet the Group's requirements for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021. The Company therefore entered into the Supplemental Agreement with HKCG on 23 May 2019 to amend the Gas Purchase Master Agreement by revising the Existing Annual Caps to the Revised Annual Caps.

The Revised Annual Caps have been determined with reference to:

- (a) the historical figures on amounts paid by the Group in respect of the Gas Purchase Transactions;
- (b) the estimated demand of the Group for fuel gas;
- (c) the estimated volume of fuel gas that HKCG Group can supply;
- (d) the gas sources that can be provided by other independent suppliers and related tariffs; and
- (e) seasonal factors affecting the demand and supply of fuel gas.

The Directors (including the independent non-executive Directors) considered that the Gas Purchase Transactions are and will continue to be conducted in the ordinary and usual course of business of the Group and on arm's length basis, the terms of the Supplemental Agreement have been negotiated on an arm's length basis and are on normal commercial terms, and the terms of the Supplemental Agreement and the Revised Annual Caps are fair and reasonable and are in the interests of the Group and the shareholders of the Company taken as a whole.

CONTINUING CONNECTED TRANSACTIONS

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. The entering into of the Supplemental Agreement and the Gas Purchase Transactions contemplated thereunder, which are carried out in the ordinary and usual course of business of the Group and are expected to continue and extend over a period of time, therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Revised Annual Caps exceed HK\$3,000,000 but the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps are greater than 0.1% but less than 5%, the Supplemental Agreement and the Revised Annual Caps are only subject to the reporting, announcement and annual review requirements but are exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

As each of Mr. Alfred Chan Wing-kin, Mr. John Ho Hon-ming and Mr. James Kwan Yuk-choi, all being Directors, are beneficially interested in approximately 0.0019%, 0.0003% and 0.0014% of the total number of issued shares of HKCG and Mr. Alfred Chan Wing-kin and Mr. Peter Wong Wai-ye are also directors of HKCG, each of them has abstained from voting on the board resolution to approve the Supplemental Agreement and the Revised Annual Caps.

PRINCIPAL ACTIVITIES OF THE COMPANY AND HKCG

The Company is an investment holding company and the principal activities of its subsidiaries are the sales and distribution of piped gas in the PRC, including the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations and the sale of gas household appliances.

The principal 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.

DEFINITIONS

“Company”	Towngas China 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)
“Directors”	the directors of the Company
“Existing Annual Caps”	the maximum aggregate consideration payable by the Group to the HKCG Group per annum in connection with the Gas Purchase Transactions for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 provided for in the Gas Purchase Master Agreement, the particulars of which are set out in the paragraph titled “Supplemental Agreement – Subject matter” in this announcement
“Gas Purchase Master Agreement”	the agreement dated 5 December 2018 entered into between the Company and HKCG relating to the Gas Purchase Transactions, details of which are set out in the section titled “The Gas Purchase Master Agreement” of the announcement of the Company dated 5 December 2018
“Gas Purchase Transactions”	the purchase of various types of fuel gas (including but not limited to liquefied coalbed methane, compressed natural gas and liquefied natural gas) by members of the Group from members of the HKCG Group

“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 (save and except the Company and any of its subsidiaries) and associates (as defined under the Listing Rules)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China which, for the purpose of this announcement excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“Revised Annual Caps”	the revised maximum aggregate consideration payable by the Group to the HKCG Group per annum in connection with the Gas Purchase Transactions for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021, the particulars of which are set out in the paragraph titled “Supplemental Agreement – Subject matter” in this announcement
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 23 May 2019 entered into between the Company and HKCG to amend the Gas Purchase Master Agreement
“%”	per cent

By Order of the Board
Towngas China Company Limited
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 23 May 2019

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

Executive Directors:

Alfred Chan Wing-kin (*Chairman*)
Peter Wong Wai-yee (*Chief Executive Officer*)
John Ho Hon-ming (*Company Secretary*)
Martin Kee Wai-ngai (*Chief Operating Officer*)

Independent Non-Executive Directors:

Moses Cheng Mo-chi
Brian David Li Man-bun
James Kwan Yuk-choi

In this announcement, RMB has been converted to HK\$ at the rate of RMB0.8595 = HK\$1 for illustration purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.