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**CONTINUING CONNECTED TRANSACTION  
AND  
REVISION OF ANNUAL CAPS  
FOR EXISTING CONTINUING CONNECTED TRANSACTIONS**

**CONTINUING CONNECTED TRANSACTION**

The Board announces that on 27 August 2021, the Company entered into the Master LNG Storage Rental Agreement with HKCG pursuant to which members of the Group shall from time to time according to their needs rent LNG storage facilities from members of the HKCG Group, and the relevant member of the Group shall pay to the relevant member of the HKCG Group the relevant rental in connection therewith.

**REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of the Company dated 6 December 2019 in relation to, among other matters, the Master Sale of Distributed Energy Agreement entered into between the Company and HKCG with respect to the Sale of Distributed Energy Transactions for a term commencing from 1 January 2020 to 31 December 2022. On 27 August 2021, the Company and HKCG entered into the Supplemental Sale of Distributed Energy Agreement to amend the Master Sale of Distributed Energy Agreement by revising the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps. Save for the revision of the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps, all other terms and conditions under the Master Sale of Distributed Energy Agreement remain the same.

**LISTING RULES IMPLICATIONS**

As HKCG is a controlling shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. As such, the entering into of (i) the Master LNG Storage Rental Agreement and the LNG Storage Rental Transactions contemplated thereunder and (ii) the Supplemental Sale of Distributed Energy Agreement and the Sale of Distributed Energy Transactions contemplated thereunder, all of which are to be 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, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the LNG Storage Rental Annual Caps all exceed HK\$3,000,000 and all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the LNG Storage Rental Annual Caps for the LNG Storage Rental Transactions are more than 0.1% but less than 5%, the LNG Storage Rental Transactions are therefore subject to the reporting, announcement and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given that all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Revised Sale of Distributed Energy Annual Caps are less than 0.1%, the Sale of Distributed Energy Transactions constitute de minimis continuing connected transactions pursuant to Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from all reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. However, as the revision of the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps constitutes a material variation to the terms of the Master Sale of Distributed Energy Agreement which was disclosed in the announcement of the Company dated 6 December 2019, the Company is required to disclose the particulars of the revision of the Sale of Distributed Energy Annual Caps in accordance with the requirements of the Listing Rules.

## **THE MASTER LNG STORAGE RENTAL AGREEMENT**

The National Development and Reform Commission of the PRC and the National Energy Administration had published their Opinion on Expediting the Construction of Gas Storage Facilities and Improving the Market Mechanism of Auxiliary Services for Peak-load Shifting of Gas Storage\* (《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》) in April 2018. Under this initiative, urban gas suppliers are required to have gas storage capacities equivalent to not less than 5% of their respective annual gas consumption volumes by 2020. The Group is in the business of, inter alia, sales of piped gas and other types of energy, construction of gas pipelines, the sales of gas appliances and related products, and other value-added services in the PRC. To continually meet the Chinese government's requirements for gas storage capacity and better prepare the Group for the demand for gas during the peak winter periods, it is envisaged that members of the Group may from time to time rent LNG storage facilities from members of the HKCG Group.

Whilst the occurrence of the LNG Storage Rental Transactions will depend on the business requirements of the Group, it is envisaged that members of the Group will from time to time in their ordinary and usual course of business enter into LNG Storage Rental Transactions with members of the HKCG Group. The Company had therefore on 27 August 2021 entered into the Master LNG Storage Rental Agreement with HKCG to set out the principal terms and conditions governing the LNG Storage Rental Transactions. Set out below are the principal terms of the Master LNG Storage Rental Agreement:

- Date** : 27 August 2021
- Parties** : (i) the Company; and  
(ii) HKCG, the controlling shareholder of the Company
- Term** : The Master LNG Storage Rental Agreement shall be for a term commencing from 1 September 2021 to 31 December 2023 (both days inclusive) unless terminated by either party to the Master LNG Storage Rental Agreement by not less than one month's prior written notice.
- Transaction nature** : Pursuant to the Master LNG Storage Rental Agreement, members of the Group shall from time to time according to their needs rent LNG storage facilities from members of the HKCG Group, and the relevant member of the Group shall pay to the relevant member of the HKCG Group the relevant rental in connection therewith. Each LNG Storage Rental Transaction will be effected and governed by the terms of the relevant rental agreement to be entered into between the relevant member of the Group and the relevant member of the HKCG Group.
- Pricing basis and other terms** : Pursuant to the Master LNG Storage Rental Agreement, the terms of each LNG Storage Rental Transaction (including but not limited to the amount of rental payable by the relevant member of the Group and the payment terms) shall be on normal commercial terms, negotiated on an arm's length basis and be on similar basis as the relevant member of the Group transacts rental business with other independent third party LNG storage facilities providers and shall be on terms which from the Group's perspective are no less favourable to the Group than those which the Group could obtain from other independent third party LNG storage facilities providers.

The relevant member of the Group will, before entering into any rental agreement with the relevant member of the HKCG Group, make reference to similar types of rental in the market and then shortlist at least two storage facilities providers through bidding or other procedures such as obtaining rental quotations. It will then make evaluation based on the current market rental. Under normal circumstances, the relevant member of the Group will give priority to the storage facilities provider with the lowest rental, but will also take into consideration other non-cost factors such as the storage capacity that the storage facilities provider is able to provide (where suitable). In the event that the supply of storage facilities in the market exceeds the demand, the rental amount will be of the foremost consideration. After reviewing and considering the above factors, the management of the relevant member of the Group will then decide on whether to enter into a rental agreement with the relevant member of the HKCG Group.

## **HISTORICAL FIGURES FOR THE LNG STORAGE RENTAL TRANSACTIONS**

The Group had not entered into any LNG Storage Rental Transactions with the HKCG Group prior to year 2021 and the aggregate amount paid by the Group to the HKCG Group in connection with the LNG Storage Rental Transactions for the period from 1 January 2021 to 31 July 2021 was approximately RMB3,740,000 (approximately HK\$4,488,000).

## **LNG STORAGE RENTAL ANNUAL CAPS AND BASIS FOR DETERMINING SUCH CAPS**

It is expected that the maximum aggregate fees payable by the Group to the HKCG Group in connection with the LNG Storage Rental Transactions per annum will not exceed the amounts set out below (the “LNG Storage Rental Annual Caps”):

	<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>
LNG Storage Rental Transactions	RMB75,000,000 (approximately HK\$90,004,000)	RMB50,000,000 (approximately HK\$60,002,000)	RMB50,000,000 (approximately HK\$60,002,000)

The LNG Storage Rental Annual Caps have been determined with reference to:

- (a) the storage capacity requirements of members of the Group and the storage capacity that members of the HKCG Group are able to rent out to members of the Group;
- (b) the market rental in respect of gas storage facilities in the PRC; and
- (c) the amount of discount that members of the Group will be able to enjoy if advance rental payment is made to members of the HKCG Group.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE LNG STORAGE RENTAL TRANSACTIONS**

Based on the evaluation of the Group, the HKCG Group is comprehensively equipped in terms of the construction and operation of gas storage facilities. It is believed that the renting of LNG storage facilities from the HKCG Group will enable the Group to continually meet the PRC government’s requirements for gas storage facilities, improve its gas supply capabilities to ensure a steady supply of natural gas to customers, and import LNG independently, thereby lowering upstream procurement costs.

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

## REVISION OF ANNUAL CAPS FOR EXISTING CONTINUING CONNECTED TRANSACTIONS

### THE SUPPLEMENTAL SALE OF DISTRIBUTED ENERGY AGREEMENT

Reference is made to the announcement of the Company dated 6 December 2019 in relation to, among other matters, the Master Sale of Distributed Energy Agreement entered into between the Company and HKCG with respect to the Sale of Distributed Energy Transactions for a term commencing from 1 January 2020 to 31 December 2022. On 27 August 2021, the Company and HKCG entered into the Supplemental Sale of Distributed Energy Agreement to amend the Master Sale of Distributed Energy Agreement by revising the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps. Save for the revision of the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps, all other terms and conditions under the Master Sale of Distributed Energy Agreement remain the same.

Set out below are the principal terms of the Supplemental Sale of Distributed Energy Agreement:

#### Date:

27 August 2021

#### Parties:

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

#### Subject Matter:

Pursuant to the Supplemental Sale of Distributed Energy Agreement, the maximum aggregate consideration payable by the HKCG Group to the Group per annum in connection with the Sale of Distributed Energy Transactions for the years ending 31 December 2021 and 31 December 2022 are amended as follows:

	<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>
Existing Sale of Distributed Energy Annual Caps	RMB60,000,000 (approximately HK\$72,003,000)	RMB70,000,000 (approximately HK\$84,003,000)
Revised Sale of Distributed Energy Annual Caps	RMB8,000,000 (approximately HK\$9,600,000)	RMB8,000,000 (approximately HK\$9,600,000)

## **REASONS FOR REVISING THE EXISTING SALE OF DISTRIBUTED ENERGY ANNUAL CAPS AND THE BASIS FOR DETERMINING THE REVISED SALE OF DISTRIBUTED ENERGY ANNUAL CAPS**

Pursuant to the Master Sale of Distributed Energy Agreement, the existing annual caps for the Sale of Distributed Energy Transactions for the year ended 31 December 2020 and the two years ending 31 December 2021 and 31 December 2022 were RMB40,000,000 (approximately HK\$48,002,000), RMB60,000,000 (approximately HK\$72,003,000) and RMB70,000,000 (approximately HK\$84,003,000) respectively.

Up to the date of this announcement, no member of the Group had entered into any Sale of Distributed Energy Transactions with members of the HKCG Group, and the transaction volume in respect of the two years ending 31 December 2021 and 31 December 2022 are expected to be lower than previously projected. The Company therefore entered into the Supplemental Sale of Distributed Energy Agreement with HKCG on 27 August 2021 to amend the Master Sale of Distributed Energy Agreement by revising the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps which are amounts closer to the amount of the consideration expected to be received by the Group from the HKCG Group in respect of the Sale of Distributed Energy Transactions for the years ending 31 December 2021 and 31 December 2022 respectively.

The Revised Sale of Distributed Energy Annual Caps have been determined with reference to:

- (a) the estimated requirements of the HKCG Group in respect of Distributed Energy;
- (b) the estimated volume of Distributed Energy which the Group is able to supply; and
- (c) the relevant prices of similar products chargeable by other independent suppliers.

The Directors (including the independent non-executive Directors) consider that the Sale of Distributed Energy 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 Sale of Distributed Energy Agreement have been negotiated on an arm's length basis and are on normal commercial terms, and the terms of the Supplemental Sale of Distributed Energy Agreement and the Revised Sale of Distributed Energy Annual Caps are fair and reasonable and are in the interests of the Group and the shareholders of the Company taken as a whole.

## **INFORMATION ON THE COMPANY AND HKCG**

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

HKCG is a controlling shareholder of the Company and through its various wholly-owned subsidiaries holds approximately 68.51% of the total issued shares of the Company as at the date of this announcement. 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. 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, members of the HKCG Group are connected persons of the Company under the Listing Rules. As such, the entering into of (i) the Master LNG Storage Rental Agreement and the LNG Storage Rental Transactions contemplated thereunder and (ii) the Supplemental Sale of Distributed Energy Agreement and the Sale of Distributed Energy Transactions contemplated thereunder, all of which are to be 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, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the LNG Storage Rental Annual Caps all exceed HK\$3,000,000 and all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the LNG Storage Rental Annual Caps for the LNG Storage Rental Transactions are more than 0.1% but less than 5%, the LNG Storage Rental Transactions are therefore subject to the reporting, announcement and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given that all of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Revised Sale of Distributed Energy Annual Caps are less than 0.1%, the Sale of Distributed Energy Transactions constitute de minimis continuing connected transactions pursuant to Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from all reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. However, as the revision of the Existing Sale of Distributed Energy Annual Caps to the Revised Sale of Distributed Energy Annual Caps constitutes a material variation to the terms of the Master Sale of Distributed Energy Agreement which was disclosed in the announcement of the Company dated 6 December 2019, the Company is required to disclose the particulars of the revision of the Sale of Distributed Energy Annual Caps in accordance with the requirements of the Listing Rules.

As Mr. Alfred Chan Wing-kin, 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 Master LNG Storage Rental Agreement, the Supplemental Sale of Distributed Energy Agreement and the transactions contemplated thereunder.

## **DEFINITIONS**

In this announcement, unless the context requires otherwise, the following expressions shall have the following meanings:

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company

“Distributed Energy”	distributed energy including but not limited to electricity, steam, heating, cooling and hot water which are generated through the use of energy efficient technology to capture residual heat
“Existing Sale of Distributed Energy Annual Caps”	the maximum aggregate consideration payable by the HKCG Group to the Group per annum in connection with the Sale of Distributed Energy Transactions for the years ending 31 December 2021 and 31 December 2022 provided for in the Master Sale of Distributed Energy Agreement, the particulars of which are set out in the paragraph titled “The Supplemental Sale of Distributed Energy Agreement – Subject matter” in this announcement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“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 its subsidiaries) and associates (as defined under the Listing Rules)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“LNG Storage Rental Transactions”	the renting of liquefied natural gas (“LNG”) storage facilities by members of the Group from members of the HKCG Group, and the payment by the relevant member of the Group to the relevant member of the HKCG Group of the relevant rental in connection therewith
“Master LNG Storage Rental Agreement”	the agreement dated 27 August 2021 entered into between the Company and HKCG relating to the LNG Storage Rental Transactions, details of which are set out in the section titled “The Master LNG Storage Rental Agreement” in this announcement
“Master Sale of Distributed Energy Agreement”	the agreement dated 6 December 2019 entered into between the Company and HKCG relating to the Sale of Distributed Energy Transactions, details of which are set out in the section titled “The Master Sale of Distributed Energy Agreement” in the announcement of the Company dated 6 December 2019
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan

“Revised Sale of Distributed Energy Annual Caps”	the revised maximum aggregate consideration payable by the HKCG Group to the Group per annum in connection with the Sale of Distributed Energy Transactions for the years ending 31 December 2021 and 31 December 2022, the particulars of which are set out in the paragraph titled “The Supplemental Sale of Distributed Energy Agreement – Subject matter” in this announcement
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Sale of Distributed Energy Transactions”	the sale of Distributed Energy by members of the Group to members of the HKCG Group and the payment by the relevant member of the HKCG Group to the relevant member of the Group of the relevant fees in connection therewith
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Sale of Distributed Energy Agreement”	the supplemental agreement dated 27 August 2021 entered into between the Company and HKCG to amend the Master Sale of Distributed Energy Agreement
“%”	per cent.

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

Hong Kong, 27 August 2021

As at the date of this announcement, the Board 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

*English names marked with “\*” in this announcement are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.*

*In this announcement, RMB has been converted to HK\$ at the rate of RMB0.8333 = 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.*