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香港中華煤氣有限公司
THE HONG KONG AND CHINA GAS COMPANY LIMITED
(Incorporated in Hong Kong under the Companies Ordinance with limited liability)
(Stock Code: 3)



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)

JOINT ANNOUNCEMENT

(1) AGREEMENTS FOR EXIT OF TOWNGAS SMART ENERGY COMPANY LIMITED FROM ITS INVESTMENT IN SHANGHAI GAS CO., LTD.*

(2) DISCLOSEABLE TRANSACTION OF HKCG

(3) MAJOR TRANSACTION OF TSEL

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

On 23 May 2023, TSEL entered into:

- (a) the Capital Reduction Agreement with Shanghai Gas and Shenergy Group, pursuant to which the Parties agreed to the exit of TSEL 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 TSEL for a consideration of RMB4,662,577,702.32 payable by Shanghai Gas to TSEL; 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.

LISTING RULES IMPLICATIONS

For HKCG, as the highest of the applicable percentage ratios in respect of the Capital Reduction exceeds 5% but is below 25%, the Capital Reduction constitutes a discloseable transaction of HKCG and is therefore subject to the notification and announcement requirements (but not the circular and shareholders' approval requirements) under Chapter 14 of the Listing Rules.

For TSEL, 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 TSEL 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 of to approve the transaction. As at the date of this announcement, 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 of TSEL respectively) holds a total of 2,162,535,761 shares of TSEL, representing approximately 66.36% of the total issued shares having the right to attend and vote at a general meeting of TSEL. On 23 May 2023, TSEL obtained an irrevocable and unconditional written approval of the Capital Reduction from these Immediate Shareholders. Accordingly, the TSEL Board does not intend to convene a general meeting of TSEL for obtaining shareholders' approval of the Capital Reduction as a major transaction of TSEL.

A circular containing, among other things, further details of the Capital Reduction is expected to be despatched to the shareholders of TSEL for information purposes on or before 14 June 2023.

As Completion is subject to, among other things, the satisfaction of the Taking Effect Conditions and the Conditions Precedent, the Capital Reduction may or may not proceed. Shareholders and potential investors of HKCG and TSEL should exercise caution when dealing in the securities of HKCG and TSEL.

INTRODUCTION

Subsequent to the entering into of the memorandum of understanding dated 16 March 2023 between Shanghai Gas, TSEL and Shenergy Group in relation to the exit of TSEL from its entire investment of 25% equity interest in Shanghai Gas as referred to in the joint voluntary announcement of HKCG and TSEL dated 16 March 2023, TSEL entered into the Capital Reduction Agreement and the Termination Agreement on 23 May 2023.

THE CAPITAL REDUCTION AGREEMENT

Date

23 May 2023

Parties

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

Capital Reduction

The Parties agreed to the exit of TSEL 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 TSEL 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 TSEL is RMB4,662,577,702.32, which was determined after arm's length negotiations between the Parties and with reference to the valuation by a PRC-based valuer of the net asset value of Shanghai Gas as at 28 February 2023 of RMB18,650,310,809.26.

Conditions to the Capital Reduction Agreement becoming effective

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

- (a) the Capital Reduction having been approved by the shareholders of TSEL at a general meeting or, if permitted under applicable laws (including but not limited to the Listing Rules), by the majority shareholders of TSEL 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.

Conditions precedent to payment of Consideration

The Consideration shall be paid by Shanghai Gas to a bank account designated by TSEL 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.

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.

Transitional arrangements

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

In the case of Completion, from 28 February 2023, TSEL ceased to have any shareholder's rights of Shanghai Gas. Accordingly, TSEL 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, TSEL 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 of HKCG and of TSEL having made all reasonable enquiries, save for TSEL's 25% equity interest in Shanghai Gas, Shanghai Gas and Shenergy Group and their respective ultimate beneficial owners are third parties independent of HKCG, TSEL and their respective 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.

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

Shanghai Gas is owned as to 25% by TSEL and 75% by Shenergy Group. Upon Completion, TSEL 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 TSEL, 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 TSEL 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 TSEL 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.

HKCG and TSEL 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 TSEL, 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) of HKCG 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 HKCG and the shareholders of HKCG as a whole.

The directors (including the independent non-executive directors) of TSEL 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 TSEL and the shareholders of TSEL as a whole.

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

FINANCIAL EFFECTS OF THE EXIT

Each of the HKCG Group and the TSEL 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 HKCG Group and the TSEL 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. The actual amount of net gain on the Exit to be recognised by the HKCG Group and the TSEL 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 HKCG Group and the TSEL 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 HKCG Group and of the TSEL Group.

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 HKCG AND TSEL

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.

TSEL 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. TSEL is a subsidiary of HKCG.

LISTING RULES IMPLICATIONS

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A circular containing, among other things, further details of the Capital Reduction is expected to be despatched to the shareholders of TSEL for information purposes on or before 14 June 2023.

As Completion is subject to, among other things, the satisfaction of the Taking Effect Conditions and the Conditions Precedent, the Capital Reduction may or may not proceed. Shareholders and potential investors of HKCG and TSEL should exercise caution when dealing in the securities of HKCG and TSEL.

DEFINITIONS

“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 TSEL for the Consideration
“Capital Reduction Agreement”	the agreement for the Capital Reduction dated 23 May 2023 entered into between the Parties
“Completion”	completion of the Capital Reduction

“Conditions Precedent”	the conditions precedent to payment of the Consideration by Shanghai Gas to TSEL as set out in the section headed “ <i>Conditions precedent to payment of Consideration</i> ” of this announcement
“Consideration”	the cash consideration of RMB4,662,577,702.32 payable by Shanghai Gas to TSEL for the Capital Reduction pursuant to the Capital Reduction Agreement
“Exit”	the exit of TSEL from its 25% equity interest in Shanghai Gas through the Capital Reduction
“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
“Immediate Shareholders”	Planwise Properties Limited, Superfun Enterprises Limited and Hong Kong & China Gas (China) Limited, all being wholly-owned subsidiaries of HKCG
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	Shanghai Gas, TSEL 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 announcement excludes the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan
“Proposed Southbound Subscription”	the proposed issue of ordinary shares by TSEL to Shanghai Gas pursuant to the agreement on deepening the cooperation between TSEL and Shanghai Gas dated 27 October 2020 entered into between TSEL and Shanghai Gas as referred to in the joint announcement of HKCG and TSEL dated 27 October 2020 (as subsequently supplemented) with a view to achieving a cross-shareholding of 25% between Shanghai Gas and TSEL

“RMB”	Renminbi, the lawful currency of the PRC
“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>Conditions to the Capital Reduction Agreement becoming effective</i> ” of this announcement
“Termination Agreement”	the agreement dated 23 May 2023 entered into between the Parties in relation to 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
“TSEL”	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
“TSEL Group”	TSEL and its subsidiaries

By Order of the board of directors of
The Hong Kong and China Gas Company Limited
John Ho Hon-ming
*Executive Director, Chief Financial Officer and
Company Secretary*

By Order of the board of directors of
Towngas Smart Energy Company Limited
John Ho Hon-ming
Executive Director and Company Secretary

Hong Kong, 23 May 2023

As at the date of this announcement, the board of directors of HKCG comprises:

Non-executive Directors: Dr. Lee Ka-kit (Chairman), Dr. Lee Ka-shing (Chairman),
Dr. Colin Lam Ko-yin and Mr. Andrew Fung Hau-chung

Independent Non-executive Directors: Dr. the Hon. Sir David Li Kwok-po, Prof. Poon Chung-kwong
and Dr. the Hon. Moses Cheng Mo-chi

Executive Directors: Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming

As at the date of this announcement, the board of directors of TSEL comprises:

Non-executive Directors: Dr. Lee Ka-kit (Chairman) and Mr. Liu Kai Lap Kenneth

Independent Non-executive Directors: Dr. the Hon. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun,
Mr. James Kwan Yuk-choi and Dr. Loh Kung Wai Christine

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) and
Dr. John Qiu Jian-hang (Chief Operating Officer – Renewable Business)

** For identification purposes only*