THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in **Towngas Smart Energy Company Limited**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Towngas Smart Energy Company Limited.

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

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover page have the same meanings as defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee is set out on pages 18 to 19 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 38 of this circular.

A notice convening the EGM to be held at Meeting Room S221 (Harbour Road Entrance), Hong Kong Convention and Exhibition Centre, Wanchai, Hong Kong on Wednesday, 20 November 2024 at 12:00 noon is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM (or any adjournment thereof) is also enclosed.

Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 12:00 noon on Monday, 18 November 2024 or not less than 48 hours before the time scheduled for holding the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

To the extent that there are any inconsistencies between the English version and the Chinese version of this circular, the English version shall prevail.

31 October 2024

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

"Board"	the board of directors of the Company
"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 on 20 November 2024
"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
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the board of Directors comprising Mr. Brian David Li Man-bun and Dr. Christine Loh Kung-wai, being independent non-executive Directors

"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 SFO, 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
"Latest Practicable Date"	25 October 2024, 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
"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

"Ordinary Resolution"	the proposed ordinary resolution as referred to in the notice of EGM
"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
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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
"Valuation Report of Shandong Jihua"	the valuation report dated 31 October 2024 issued by the Valuer on the fair value of 100% equity interest in Shandong Jihua as at 31 March 2024, which is set out in Appendix I to this circular
"Valuation Report of Shandong Towngas"	the valuation report dated 31 October 2024 issued by the Valuer on the fair value of 100% equity interest in Shandong Towngas as at 31 March 2024, which is set out in Appendix II to this circular
"Valuer"	AVISTA Valuation Advisory Limited, an independent professional valuer
"%"	per cent.

* *For identification purposes only*

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. the Hon. LEE Ka-kit *(Chairman)*
Mr. Kenneth LIU Kai-lap

Executive Directors:
Mr. Peter WONG Wai-yee
(Chief Executive Officer)
Mr. Martin KEE Wai-ngai
(Chief Operating Officer – Gas Business)
Dr. John QIU Jian-hang
(Chief Operating Officer – Renewable Business)

Independent Non-Executive Directors:
Dr. the Hon. Moses CHENG Mo-chi
Mr. Brian David LI Man-bun
Dr. Christine LOH Kung-wai

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

31 October 2024

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
MERGER OF JOINT VENTURE COMPANIES

INTRODUCTION

Reference is made to the announcement issued by the Company on 26 September 2024 in relation to the Merger Transaction Agreements and the Transaction. Pursuant to the Listing Rules, the Company is required to seek the Independent Shareholders' approval in relation to the Merger Transaction Agreements and the Transaction at the EGM.

The purpose of this circular is to provide you with, among other things, (i) details of 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; (iv) other information as required by the Listing Rules; and (v) a notice convening the EGM.

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 valuations of Shandong Towngas and Shandong Jihua of RMB3,330 million and RMB2,056 million respectively, were derived from the respective net asset values (excluding minority interests) of Shandong Towngas and Shandong Jihua as at 31 March 2024 of RMB3,213 million and RMB1,984 million, times the average price-to-book ratio of 1.30 times and less a lack of marketability discount of 20.50%.

The Board had reviewed the Valuation Report of Shandong Jihua and the Valuation Report of Shandong Towngas which are set out in Appendices I and II of this circular respectively.

Valuation approach

The Valuer had considered the three generally accepted approaches to appraise the fair value of the equity interests in Shandong Towngas and Shandong Jihua, namely the cost approach, the income approach and the market approach. The market approach was adopted by the Valuer for the reasons that:

(i) the cost approach is considered not suitable as it would be assumed that the assets and liabilities of Shandong Towngas and Shandong Jihua are separable and can be sold separately, whereas such approach is more suitable for valuation of companies with highly liquid assets, in industries such as property development and financial institutions;

(ii) the income approach is considered not suitable as a number of unobservable inputs and subjective assumptions would have been involved in formulating the underlying financial projections; and

(iii) the valuation arrived from the market approach would more likely reflect the market expectations over the corresponding industry and there are sufficient public companies in a similar nature and business to that of Shandong Towngas and Shandong Jihua, and therefore, the market approach is considered to be suitable.

Comparable companies

In considering which companies are comparable to Shandong Jihua and Shandong Towngas, the Valuer chose among public companies listed on the Stock Exchange or the stock exchanges in the PRC and selected companies based on the major selection criteria that (i) the principal business is the sales and distribution of piped gas or natural gas in the PRC; and (ii) the net asset value (excluding minority interests) based on the latest financial information available as at 31 March 2024 shall be between RMB1 billion to RMB5 billion, and consequently identified the 16 companies set out in the Valuation Report of Shandong Jihua and the Valuation Report of Shandong Towngas.

Given that Shandong Towngas and Shandong Jihua are both principally engaged in gas operation, gas vehicle refueling operation, construction engineering design, and installation and maintenance of gas burning appliances, and the net asset values (excluding minority interests) of Shandong Towngas and Shandong Jihua are both within the range of RMB1 billion to RMB5 billion, the selected companies are considered to be comparable to Shandong Towngas and Shandong Jihua.

In view of the above, the Board considers that the valuation approach adopted by the Valuer is fair and reasonable and its selection of the comparable companies is appropriate.

HKCG (Jinan) first acquired its equity interest in Shandong Towngas through an initial capital injection in 2003, followed by several subsequent capital increases, resulting in an aggregate capital contribution of RMB343 million to Shandong Towngas since December 2020.

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 (unaudited) *RMB'000*	**For the year ended 31 December 2023 (unaudited)** *RMB'000*
Net profit before taxation	290,163	233,404
Net profit after taxation	216,129	165,508

	As at 31 December 2022 (unaudited) *RMB'000*	**As at 31 December 2023 (unaudited)** *RMB'000*	**As at 31 March 2024 (unaudited)** *RMB'000*
Net assets	3,085,292	3,191,479	3,245,097

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 (unaudited) *RMB'000*	For the year ended 31 December 2023 (unaudited) *RMB'000*
Net (loss) / profit before taxation	(108,878)	5,977
Net loss after taxation	(138,489)	(34,176)

	As at 31 December 2022 (unaudited) *RMB'000*	As at 31 December 2023 (unaudited) *RMB'000*	As at 31 March 2024 (unaudited) *RMB'000*
Net assets	2,152,571	2,096,114	2,099,509

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.

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 its subsidiaries are principally engaged in the sales of piped gas, renewable energy 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 (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 Latest Practicable Date. 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 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.

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. the Hon. Lee Ka-kit, Mr. Peter Wong Wai-yee 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.

EGM

The notice convening the EGM is set out at pages EGM-1 to EGM-3 of this circular. At the EGM, an Ordinary Resolution will be proposed to approve the Merger Transaction Agreements and the Transaction.

Shareholders who are entitled to attend, speak and (subject to any applicable requirement of the Listing Rules to abstain from voting on any relevant resolution) vote at the EGM are those whose names appear as members of the Company on the register of members of the Company on 20 November 2024. In order to determine the Shareholders who are so entitled, the register of members of the Company will be closed from 15 November 2024 to 20 November 2024, both days inclusive, during which period no transfer of Shares will be registered for the purpose of ascertaining the Shareholders entitled to attend, speak and (subject to any applicable requirements referred to above) vote at the EGM. In order to be eligible to attend, speak and (subject to any applicable requirements referred to above) vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share transfer office of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30p.m. on 14 November 2024.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 12:00 noon on 18 November 2024, or not less than 48 hours before the time appointed for the holding of any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be).

Pursuant to rule 13.39(4) of the Listing Rules, the votes taken at the EGM to seek approval from the Independent Shareholders will be conducted by poll.

As HKCG (Jinan), a wholly-owned subsidiary of HKCG, is a party to the Merger Agreement, HKCG is considered to have a material interest in the Merger Transaction Agreements and the transactions contemplated thereunder. As at the Latest Practicable Date, Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited (all being indirect wholly-owned subsidiaries of HKCG) collectively held 2,379,921,776 Shares (representing approximately 68.38% of the total issued Shares as at the Latest Practicable Date). In view of the interest of HKCG in the Merger Agreement and the transactions contemplated thereunder, such subsidiaries of HKCG will be required to abstain from voting on the Ordinary Resolution at the EGM. Save as disclosed above, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required under the Listing Rules to abstain from voting on the Ordinary Resolution to approve the Merger Transaction Agreements and the Transaction.

RECOMMENDATIONS

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.

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 18 to 19 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders, and (ii) the letter from the Independent Financial Adviser as set out on pages 20 to 38 of this circular which contains the recommendation 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 the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation.

Having taken into account the factors as disclosed above in the section headed "Reasons for and Benefits of Entering into the Merger Transaction Agreements", the Directors (including Dr. the Hon. Moses Cheng Mo-chi, an independent non-executive Director, and the members of the Independent Board Committee, namely Mr. Brian David Li Man-bun and Dr. Christine Loh Kung-wai, whose views are set out in the "Letter from the Independent Board Committee" in this circular after taking into account the advice of the Independent Financial Adviser) 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. Therefore, the Directors recommend the Independent Shareholders to vote in favour of the Ordinary Resolution to be proposed at the EGM to approve the Merger Transaction Agreements and the Transaction.

ADDITIONAL INFORMATION

Your attention is drawn to the Valuation Report of Shandong Jihua set out in Appendix I on pages I-1 to I-25, the Valuation Report of Shandong Towngas set out in Appendix II on pages II-1 to II-26 and the other information set out in Appendix III on pages III-1 to III-5, of this circular.

Yours faithfully,
By Order of the Board
Towngas Smart Energy Company Limited
Peter Wong Wai-yee
Executive Director and Chief Executive Officer

* *For identification purposes only*

The following is the text of a letter from the Independent Board Committee, setting out its recommendation to the Independent Shareholders in relation to the Merger Transaction Agreements and the Transaction, which has been prepared for the purpose of inclusion in this circular.

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)

31 October 2024

To the Independent Shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
MERGER OF JOINT VENTURE COMPANIES

We refer to the circular of the Company to the Shareholders dated 31 October 2024 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

As members of the Independent Board Committee, we have been appointed by the Board to advise the Independent Shareholders in respect of the Merger Transaction Agreements and the Transaction. Details of the Merger Transaction Agreements are set out in the text of the letter from the Board as set out on pages 5 to 17 of the Circular.

We wish to draw your attention to the letter of advice of the Independent Financial Adviser as set out on pages 20 to 38 of the Circular which contains, among others, its advice and recommendation to us as regards the terms of the Merger Transaction Agreements and the Transaction with the principal factors and reasons for its advice and recommendation.

Having considered, among other matters, the factors and reasons considered by, and the opinions of, the Independent Financial Adviser as stated in its letter of advice, we 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 Transaction are fair and reasonable, and the Merger Transaction Agreements and the Transaction are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the Ordinary Resolution to be proposed at the EGM to approve the Merger Transaction Agreements and the Transaction.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Brian David Li Man-bun **Dr. Christine Loh Kung-wai**
Independent Non-Executive Directors

The following is the text of a letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Merger Transaction Agreements and the Transaction, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

31 October 2024

To: The Independent Board Committee and the Independent Shareholders of Towngas Smart Energy Company Limited

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION MERGER OF JOINT VENTURE COMPANIES

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the entering into of (i) the Merger Agreement among Towngas Investments (being an indirect wholly-owned subsidiary of the Company), Shandong Towngas, Shandong Jihua, Jinan Energy Group and HKCG (Jinan) (being a wholly-owned subsidiary of HKCG); and (ii) the JV Documents among Towngas Investments, Jinan Energy Group and HKCG (Jinan), and the Transaction. Details of the Merger Transaction Agreements are contained in the circular of the Company to the Shareholders dated 31 October 2024 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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 transactions 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 the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the transactions contemplated under the Merger Transaction Agreements is in the ordinary and usual course of business of the Group and 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. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company and HKCG or their respective substantial shareholders or associates and accordingly are considered eligible to give independent advice on the above matters. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company and HKCG or their respective substantial shareholders or associates. In addition, save for the current appointment, no other services were provided by us to the Company during the past two years. As at the Latest Practicable Date, there were no relationships or interests between Somerley Capital Limited on one hand and the Company and HKCG or their respective substantial shareholders or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the Merger Transaction Agreements and the Transaction.

In formulating our opinion and recommendation, we have reviewed, among other things, the Merger Transaction Agreements, the interim report of the Company for the six months ended 30 June 2024 (the "**Interim Report**"), the annual report of the Company for the year ended 31 December 2023 (the "**Annual Report**"), the valuation reports (the "**Valuation Reports**") prepared by the Valuer and the information set out in the Circular. We have also discussed with the management of the Group (the "**Management**") regarding the commercial and financial implications of the Merger Transaction Agreements and the Transaction on the Group.

We have relied on the information and facts supplied, and the opinions and intention expressed to us, by the Directors and the Management and have assumed that they are true, accurate and complete and will remain so up to the date of the EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion and recommendation, we have taken into account the following principal factors:

1. Information on the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the sales of piped gas, renewable energy 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.

A summary of the Group's audited consolidated financial information for the financial years ended 31 December 2022 ("**FY2022**") and 2023 ("**FY2023**") as extracted from the Annual Report and unaudited consolidated financial information for the six months ended 30 June 2023 ("**1H2023**") and 2024 ("**1H2024**") as extracted from the Interim Report is set out below:

	FY2022	**FY2023**	**1H2023**	**1H2024**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	20,073,010	19,841,511	9,882,711	10,500,990
Profit attributable to the Shareholders	964,855	1,574,623	1,115,411	742,714

	As at 31 December		**As at 30 June**
	2022	**2023**	**2024**
	HK$'000	*HK$'000*	*HK$'000*
Equity attributable to the Shareholders	21,504,859	22,847,212	22,490,404

The Group's revenue was HK$19,841.5 million for FY2023, representing a year-on-year decrease of 1.2% compared to HK$20,073.0 million for FY2022. Such decline was primarily attributable to the depreciation of Renminbi (RMB) against Hong Kong dollar, despite a 4.2% increase in turnover when expressed in RMB. The profit attributable to the Shareholders rose by 63.2% year-on-year, reaching HK$1,574.6 million for FY2023. This increase was mainly due to the share of the loss of an associate decreasing from HK$589 million in FY2022 to HK$92 million in FY2023. Excluding the non-operating gains and losses (i.e. gain from change in fair value of embedded derivative component of convertible bonds, the net gain on exit from equity interest of an associate and share of its results and impairment provision of goodwill in FY2023), the core operating profit amounted to HK$1,190 million for FY2023, representing an increase of 16.3% (22.6% in RMB) as compared to previous year.

For 1H2024, the Group's revenue increased by 6.3% year-on-year to HK$10,501.0 million, primarily driven by the increases in revenues from sales of piped gas business and renewable energy business in the first half of 2024. The Group recorded a profit attributable to the Shareholders of HK$742.7 million for 1H2024, representing a year-on-year decrease of 33.4% from HK$1,115.4 million for 1H2023. This decline was mainly due to absence of gain on the Company's exit from its investment in an associate, which amounted to HK$692.2 million in 1H2023. Excluding non-operating gains and losses (i.e. 1H2023: gain from change in fair value of embedded derivative component of convertible bonds and net gain on exit from the equity investment in an associate; and 1H2024: gain from change in fair value of embedded derivative component of convertible bonds and assets impairment attributable to the Shareholders), the core operating profit increased by 57.5% (63.3% in RMB) to HK$707 million for 1H2024.

The Group's equity attributable to the Shareholders increased by 6.2% year-on-year from HK$21,504.9 million as at 31 December 2022 to HK$22,847.2 million as at 31 December 2023, which was mainly attributable to profits generated during FY2023. The Group's equity attributable to the Shareholders as at 30 June 2024 was close to that as at 31 December 2023.

2. Information on the parties to the Merger Transaction Agreements which hold equity interests in Shandong Towngas and Shandong Jihua

Towngas Investments

Towngas Investments is an indirect wholly-owned subsidiary of the Company and an investment holding company.

HKCG

HKCG is a company incorporated in Hong Kong with limited liabilities, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3). 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. As at the Latest Practicable Date, HKCG is a controlling Shareholder and is interested in 2,379,921,776 Shares, representing 68.38% of the total issued share capital of the Company.

HKCG (Jinan)

HKCG (Jinan) is a wholly-owned subsidiary of HKCG and an investment holding company.

Jinan Energy Group

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.).

3. The Merger Transaction Agreements

3.1 The Merger Agreement

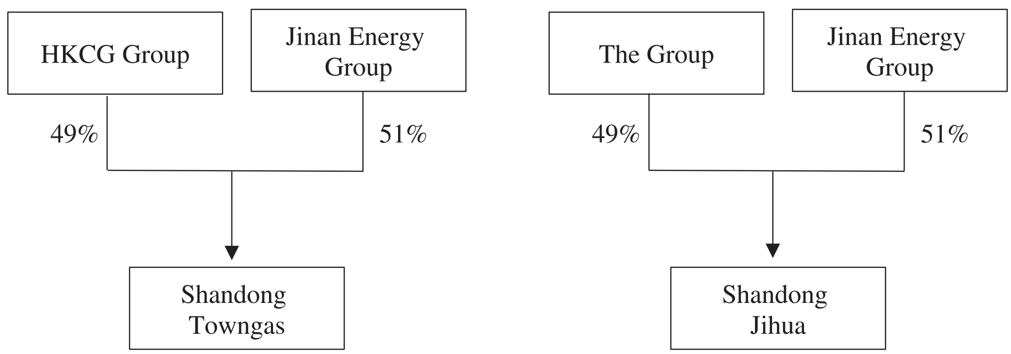
A summary of the principal terms of the Merger Agreement is set out as follows:

Date	:	26 September 2024
Parties involved	:	(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.

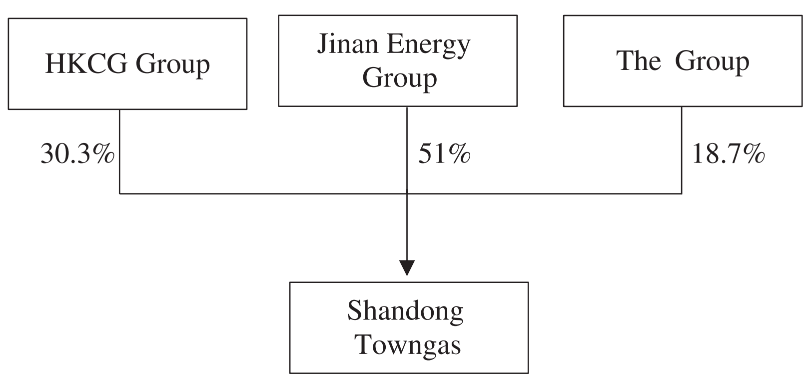
Shandong Towngas is currently owned as to 51% by Jinan Energy Group and 49% by HKCG (Jinan), and Shandong Jihua is currently owned as to 51% by Jinan Energy Group and 49% by Towngas Investments. Pursuant to the Merger Agreement, Shandong Jihua is to be merged into and absorbed by Shandong Towngas. All 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.

Set out below is the simplified shareholding structure of Shandong Towngas and Shandong Jihua before and after the Merger:

Before the Merger



After the Merger



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

As stated in the letter from the Board, after arm's length negotiations among the parties to the Merger Agreement, it was agreed that (i) Shandong Towngas would continue to be owned as to 51% by Jinan Energy Group after the Merger as both Shandong Towngas and Shandong Jihua are both currently owned as to 51% by Jinan Energy Group; and (ii) the respective percentage interests of HKCG (Jinan) and Towngas Investments in Shandong Towngas after the Merger of 30.3% and 18.7% respectively were determined 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 the Valuer. Discussion on the Valuation Reports which set out the valuations of Shandong Towngas and Shandong Jihua and our assessment of this shareholding arrangement in relation to Shandong Towngas after the Merger have been set out in the section 6 below.

For details of the principal terms of the Merger Agreement, please refer to pages 6 to 8 of the letter from the Board contained in the Circular.

3.2 JV Documents

Under the JV Documents entered into among 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 a democratically elected employee representative), 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.

Given that (i) the board composition involving 2 out of 11 directors of Shandong Towngas to be nominated by Towngas Investments is in proportion to the Group's interest in Shandong Towngas after the Merger; and (ii) the remaining terms of the JV Documents are not uncommon in other companies' articles of association, we consider them to be fair and reasonable.

3.3 Shandong Towngas

Shandong Towngas is a limited liability company established in the PRC. Shandong Towngas and its subsidiaries (the "**Shandong Towngas Group**") 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 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.

A summary of Shandong Towngas Group's unaudited consolidated financial information for FY2022, FY2023, the three months ended 31 March 2023 ("**1Q2023**") and 2024 ("**1Q2024**") as provided by the Management is set out below:

	FY2022	**FY2023**	**1Q2023**	**1Q2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	2,271,080	2,406,637	833,123	934,385
– Sales of gas	1,567,647	1,906,101	734,995	846,054
Net profit after taxation	216,129	165,508	31,658	53,403

	As at 31 December		As at 31 March
	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*
Total assets	6,117,488	7,063,827	7,110,959
– Property, plant and equipment	4,413,268	5,157,584	5,242,967
Total liabilities	3,032,196	3,872,347	3,865,862
Net assets (including minority interests)	3,085,292	3,191,479	3,245,097
Net assets (excluding minority interests)	3,057,746	3,163,164	3,212,585

For FY2023, Shandong Towngas Group recorded a revenue of RMB2,406.6 million, representing a year-on-year increase of 6.0% compared to RMB2,271.1 million for FY2022. Such increase was primarily attributable to (i) the increase in number of customers and (ii) the increases in both sales volume and sales price of gas from the sales of gas segment. The profit after taxation declined by 23.4% to RMB165.5 million in FY2023. This decrease was mainly driven by the increase in depreciation and amortisation expenses by RMB25.9 million as a result of addition to gas pipelines and buildings of approximately RMB712.6 million in FY2023.

For 1Q2024, Shandong Towngas Group's revenue increased by 12.2% year-on-year to RMB934.4 million from RMB833.1 million for 1Q2023, primarily driven by a significant increase in sales price of gas, and partially offset by decline in gas sales volume from the sales of gas segment as compared to 1Q2023. The net profit after taxation amounted to RMB53.4 million for 1Q2024, representing a year-on-year increase of 68.7% as compared to RMB31.7 million for 1Q2023. Such increase was mainly due to the increase in the gross profit from sales of gas segment, partially offset by the increase in depreciation and amortisation and maintenance expenses.

Majority of the assets of Shandong Towngas Group are gas and other pipelines and related construction in progress. As at 31 December 2022 and 2023 and 31 March 2024, the property, plant and equipment was RMB4,413.3 million, RMB5,157.6 million and RMB5,243.0 million, respectively, representing increases of 16.9% and 1.7%. The increase for FY2023 was mainly due to the construction of office buildings and gas and other pipelines for supplying gas to new customers and the increase for 1Q2024 was mainly due to the addition to construction in progress in relation to gas and other pipelines.

The total liabilities of Shandong Towngas Group as at 31 December 2022 and 2023 amounted to RMB3,032.2 million and RMB3,872.3 million, respectively, representing an increase of 27.7%. The increase for FY2023 was primarily attributable to an increase in long term bank borrowings for the construction of gas and other pipelines and office buildings. The total liabilities of Shandong Towngas as at 31 March 2024 is close to that as at 31 December 2023.

Shandong Towngas Group's net assets excluding minority interests as at 31 December 2022, 31 December 2023 and 31 March 2024 was RMB3,057.7 million, RMB3,163.2 million and RMB3,212.6 million, respectively. This represents a year-on-year increases of 3.4% from 31 December 2022 to 31 December 2023 and 1.6% from 31 December 2023 to 31 March 2024. The increases in both periods were mainly attributable to profits generated for the respective periods.

3.4 Shandong Jihua

Shandong Jihua is a limited liability company established in the PRC. Shandong Jihua and its subsidiaries (the "**Shandong Jihua Group**") 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 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.

A summary of Shandong Jihua Group's unaudited consolidated financial information for FY2022, FY2023, 1Q2023 and 1Q2024 as provided by the Management is set out below:

	FY2022	**FY2023**	**1Q2023**	**1Q2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,884,044	2,128,622	814,325	977,436
– Sales of gas	1,626,172	1,812,553	770,476	932,114
Net profit/(loss) after taxation	(138,489)	(34,176)	37,918	6,084

	As at 31 December		As at 31 March
	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*
Total assets	5,019,154	5,893,509	5,944,964
– Property, plant and equipment	3,803,453	4,106,356	4,154,191
Total liabilities	2,866,582	3,797,395	3,845,455
Net assets (including minority interests)	2,152,571	2,096,114	2,099,509
Net assets (excluding minority interests)	2,019,195	1,980,269	1,983,616

Shandong Jihua Group recorded a revenue of RMB2,128.6 million for FY2023, representing a year-on-year increase of 13.0% compared to RMB1,884.0 million for FY2022. Such increase was primarily attributable to the increase in both sales volume and sales price of gas from the sales of gas segment as a result of cost pass-through for commercial, industrial and residential customers. The net loss after taxation declined by 75.3% to RMB34.2 million in FY2023. The narrowed loss was mainly attributable to the aforementioned increase in revenue in FY2023.

Shandong Jihua's revenue increased by 20.0% year-on-year to RMB977.4 million for 1Q2024 from RMB814.3 million for 1Q2023, primarily driven by a significant increase in sales price of gas, and partially offset by decline in gas sales volume from sales of gas segment as compared to 1Q2023. Gas consumption normally peaks in winter, which explains the relatively higher revenue or profit recorded in 1st quarter of a year. Shandong Jihua recorded a profit after taxation of RMB6.1 million for 1Q2024, representing a year-on-year decrease of 84.0% from RMB37.9 million for 1Q2023. Such decrease was mainly due to the increased cost of sales and reduced gross profit from the sales of gas segment.

Majority of the assets of Shandong Jihua Group are gas and other pipelines and related construction in progress. As at 31 December 2022 and 2023 and 31 March 2024, the property, plant and equipment was RMB3,803.5 million, RMB4,106.4 million and RMB4,154.2 million, respectively, representing increases of 8.0% and 1.2%. The increase for FY2023 was mainly due to the construction of office buildings, gas gate stations and gas and other pipelines and the increase for 1Q2024 was mainly due to the addition to construction in progress in relation to gas and other pipelines.

The total liabilities of Shandong Jihua Group as at 31 December 2022 and 2023 and 31 March 2024 amounted to RMB2,866.6 million, RMB3,797.4 million and RMB3,845.5 million, respectively, representing increases of 32.5% for FY2023 and 1.3% for 1Q2024. The increase for FY2023 was primarily attributable to obtaining a long term bank borrowing for the construction of office buildings, gas gate station and gas and other pipelines and general working capital purpose and the slight increase for 1Q2024 was due to obtaining a further long term bank borrowing for construction of gas and other pipelines.

Shandong Jihua Group's net assets (excluding minority interests) as at 31 December 2022, 31 December 2023 and 31 March 2024 was RMB2,019.2 million, RMB1,980.3 million and RMB1,983.6 million, respectively. This represents a year-on-year decrease of 1.9% from 31 December 2022 to 31 December 2023 and an increase of 0.2% from 31 December 2023 to 31 March 2024. The increase and decrease for both periods were mainly attributable to profits generated or loss incurred for the periods.

4. Reasons for and benefits of entering into the Merger Transaction Agreements

As stated in the letter from the Board of the Circular, 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 resources 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 economies 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 Shandong Towngas.

As discussed with the Management, Jinan City has approximately a total of 22 gas companies, which operate in widely dispersed areas. This fragmentation causes low efficiency and thus poses potential instability in terms of gas supply. In view of this, Jinan Municipal People's Government rolled out the "One Net" plan to encourage integration of resources and operation of gas companies in Jinan City. Prior to the Merger, each of Shandong Towngas and Shandong Jihua holds approximately 25% of gas market share in Jinan City. With the government's support, the Management is of the view, and we concur, that the Merger would enlarge the operation scale and market share of Shandong Towngas in Jinan City and the economies of scale achieved therefrom could reduce operation costs and improve efficiency. In addition, after the Merger, Shandong Towngas will be the flagship for the consolidation of the Jinan's gas market. The Company could remain being a shareholder of an enlarged gas company after the Merger and continue to share economic benefits from enlarged Shandong Towngas.

5. Overview of the PRC Natural Gas Market

According to the National Bureau of Statistics of the PRC, natural gas consumption in the PRC increased at a compound annual growth rate of 12.7%, rising from 207.8 billion cubic meters in 2016 to 377.3 billion cubic meters in 2021. Gas consumption slightly decreased by 0.7% year-on-year to 374.7 billion cubic meters in 2022, primarily due to (i) the increase in natural gas prices and tight supply resulting from the Russia-Ukraine conflict; and (ii) the contraction of factory activities during COVID-19 pandemic. According to the China Natural Gas Development Report (2024) published by the National Energy Administration of the PRC, following the recovery of PRC's economy after the end of COVID related restrictions, natural gas consumption in the PRC rebounded and increased by 7.6% year-on-year to 394.5 billion cubic meters in 2023. The report also states that natural gas consumption in the PRC is expected to continue to increase, with an anticipated year-on-year increase of 6.5% to 7.7% in 2024.

The PRC government has been actively promoting the use of natural gas to reduce pollution and combat climate change. An array of policies have been promulgated by the PRC government aimed to meeting its goal of peaking carbon emissions by 2030 and achieving carbon neutrality by 2060. In October 2021, the State Council of the PRC issued the Action Plan for Carbon Peaking Before 2030, which, among others, encourages the use of natural gas in various industries and fields. Subsequently, the Action Plan for Carbon Peaking for Shandong Province was rolled out in December 2022, aimed to enhancing natural gas infrastructure and pipeline network in Shandong Province.

The recovery of the natural gas industry and favourable policies implemented by the PRC government, coupled with the rising awareness of using green and clean energy and reducing carbon emissions is expected to fuel the further development of the natural gas industry in the PRC.

6. The Valuation Reports

As set out in the letter from the Board of the Circular, the respective percentage interests of HKCG (Jinan) and Towngas Investments in Shandong Towngas after the Merger were determined after arm's length negotiations between the parties with reference to the valuations of Shandong Towngas and Shandong Jihua (the "**Targets**"). As set out in the Valuation Reports, as at 31 March 2024 (the "**Valuation Date**"), the appraised value of 100% equity interest in (i) Shandong Jihua was RMB2,056 million; and (ii) Shandong Towngas was RMB3,330 million.

6.1 Qualification and experience of the Valuer

To assess the competence and independence of the Valuer, we have obtained and reviewed (i) the engagement letter signed between the Company and the Valuer; and (ii) the credentials of the Valuer. We noted that (i) the scope of work set out in the engagement is appropriate for conducting the valuations of the Targets and there were no limitations on the scope of work set out in the engagement letter which might adversely affect the degree of assurance given by the Valuer; and (ii) the Valuer is a professional firm with extensive experience in provision of valuation advisory services and the person in-charge of the valuations of the Targets has over 20 years of experience in valuation advisory and advising clients in a range of industries including energy. Moreover, the Valuer confirmed that it is independent of the Company, HKCG and their respective substantial shareholders and/or associates.

6.2 Valuation methodology

We have discussed with the Valuer on the valuation methodology adopted in the Valuation Reports and are advised that income approach, cost approach and market approach have been considered before the Valuer came to the view that the market approach is an appropriate approach to arrive at the appraised values of the Targets. They are of the view that (i) the fair value derived from the market approach reflects market expectations over the corresponding industry; and (ii) there are sufficient public companies in a similar nature and business to that of the Targets. The Valuer does not consider it appropriate to adopt (i) cost approach as it assumes that the assets and liabilities of the Targets are separable and can be sold separately, which is more suitable for industries where assets are highly liquid (such as property development and financial institutions); nor (ii) income approach as it involves many unobservable and subjective assumptions in formulating the financial projections of the Targets which might not accurately reflect the uncertainties in the future performance of the Targets. After having taken into consideration the Valuer's view on the appropriateness of the valuation approach with respect to the Targets and given sufficient Comparable Companies (as defined below) have been identified by the Valuer and verified by us as discussed in 6.3 below, we consider the market approach to be fair and reasonable.

6.3 Comparables and valuation multiple

We have discussed with and are advised by the Valuer that Shandong Jihua and Shandong Towngas are gas companies engaged in quite similar businesses (i.e. gas operation, gas vehicle refueling operation, construction engineering design, and installation and maintenance of gas burning appliances) in Jinan City and they therefore are of the view that a same set of comparables could be applicable to both of the Targets.

The Valuer has employed S&P Capital IQ (a market intelligence tool designed by Standard & Poor's) and tried to search for comparable transactions completed and announced between April 2023 and March 2024 with the acquiree operating businesses similar to that of the Targets in the PRC but in vain. We have also applied the same selection criteria and employed MergerMarket (a M&A market intelligence service provider), and identified several comparable transactions meeting the aforementioned criteria, which, however, involved targets with net assets much smaller (less than RMB1 billion) than those of the Targets, except for one transaction which is a connected transaction of a PRC listed company. Given there is only one comparable transaction, we agreed with the Valuer that such sample size may not be representative or provide meaningful reference for the valuations of the Targets.

Alternatively, given (i) the Targets mainly operate in the PRC; and (ii) the Company is listed on the Stock Exchange, the Valuer tried to identify companies listed on PRC or Hong Kong stock exchanges with (i) principal businesses operated in the PRC and similar to that of the Targets and (ii) latest available net asset values (excluding non-controlling interests) as of the Valuation Date between RMB1 billion and RMB5 billion. A total of 16 companies ("**Comparable Companies**") meet the above criteria. After having applied the same selection criteria and employed Bloomberg equity screening tool, we found the Comparable Companies to be exhaustive.

Price-to-earnings multiple and price-to-book multiple ("**P/B Ratio**") are commonly used multiples in valuation. Given the sales and distribution of piped gas or natural gas require significant investment in fixed assets and Shandong Jihua reported losses in the last two financial years and thus no price-to-earnings multiple could be appraised, the Valuer considers and we concur that the P/B Ratio is appropriate for use in valuation of the Targets for the purpose of the Transaction. The average P/B Ratio of 1.30 times derived from those of the Comparable Companies have been adopted.

6.4 A discount for lack of marketability (the "DLOM")

Given that the Targets are privately held companies, a DLOM of 20.5%, determined with reference to a global study report "Stout Restricted Stock Study Companion Guide 2023" published by Stout Risius Ross, LLC, has been adopted on top of the estimated values of the Targets to reflect the reduced level of marketability of the Targets' shares as compared to those of the Comparable Companies. We have reviewed "Control Premium & Discount for Lack of Marketability Study (Issue 3 – August 2024)" issued by Moore Hong Kong (a member firm of Moore Global Network Limited which is a global accounting and consulting network) which has summarised the DLOMs adopted and disclosed in the circulars issued by Hong Kong listed Companies in the past twelve months and noted that those DLOMs ranged from 2.6% to 42.9% with an average of 19.6%. Given the DLOM of 20.5% falls within the range and is close to the average of the DLOMs adopted by other Hong Kong listed companies in the past twelve months, we consider the DLOM adopted by the Valuer to be fair and reasonable.

Based on the above, we consider the valuations of the Targets performed by the Valuer including the valuation methodology, the Comparable Companies, the valuation multiple and DLOM to be fair and reasonable and in line with market practice. Since the same set of Comparable Companies and same DLOM have been applied to arrive at the appraised values of the Targets, the differences in the Targets' appraised values solely arise from their difference in net assets as at 31 March 2024. Given that the shareholdings of HKCG (Jinan) and Towngas Investments in Shandong Towngas after the Merger, being 30.3% and 18.7% respectively, are in proportion to Shandong Towngas' and Shandong Jihua' net assets (excluding minority interests) before the Merger, we consider the shareholding arrangement under the Merger Agreement to be fair and reasonable.

7. Financial effects of the Transaction

The Transaction involves both Shandong Jihua Equity Disposal and Shandong Towngas Equity Acquisition. Based on the appraised values of the Targets set out in the Valuation Reports and given all assets, liabilities and employees of Shandong Jihua (including its equity interests in its subsidiaries and other companies) will be inherited by Shandong Towngas pursuant to the Merger Agreement, the value of 49% interest in Shandong Jihua that the Group is about to dispose of, shall equal to the value of the 18.7% interest in the enlarged Shandong Towngas that the Group is about to receive in return. As a result, the full gain arising from the Transaction will be the difference between the carrying value and 49% of the appraised value of Shandong Jihua as at the Valuation Date, which is RMB35.6 million (or HK$39.2 million). As a matter of technical accounting treatment in accordance with HKFRSs, the disposal of an entity that contributes non-monetary assets in exchange for an equity interest in a joint venture can only recognise a gain to the extent of the unrelated party's interest (the "**Partial Gain**"). After eliminating the gain related to the 18.7% interest in the enlarged Shandong Towngas to be held by the Group after the Merger of HK$15.0 million and transaction costs of HK$1.9 million, the Partial Gain would be approximately HK$22.3 million.

Shareholders should note that the actual amount of gain or loss on the Transaction 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 like Shandong Jihua, the Group's equity interest in Shandong Towngas will be equity accounted for as an associate company in the consolidated financial statements of the Group, which is the same as the current accounting treatment for its interest in Shandong Jihua.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that although the Transaction is not continuing in nature and therefore is not in the ordinary and usual course of business of the Group, the terms of the Merger Transaction Agreements and the Transaction are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Merger Transaction Agreements is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Merger Transaction Agreements and the Transaction.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

The following is the text of the valuation report dated 31 October 2024 on the fair value of 100% equity interest in Shandong Jihua as at 31 March 2024 prepared for the purpose of incorporation in this circular received from AVISTA Valuation Advisory Limited.

The Board of Directors 31 October 2024

Towngas Smart Energy Company Limited
23rd Floor, 363 Java Road
North Point
Hong Kong

Dear Sirs/Madams,

Re: Valuation of 100% Equity Interest in 山東濟華燃氣有限公司

In accordance with your instructions, AVISTA Valuation Advisory Limited ("**AVISTA**" or "**we**") has conducted valuation in connection with the fair value of the 100% equity interest in 山東濟華燃氣有限公司 ("**Shandong Jihua Gas**" or the "**Target**") for Towngas Smart Energy Company Limited (the "**Company**", "**Towngas Smart Energy**" or "**you**") as of 31 March 2024 (the "**Valuation Date**"). We understand that the Company intends to conduct a share restructuring in relation to its equity interest in the Target (the "**Proposed Transaction**").

It is our understanding that this appraisal is strictly addressed to the directors of the Company (the "**Directors**") and used for the Proposed Transaction solely. In addition, we acknowledge that this report may be disclosed or made available to the public under the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and disclosed or referred to in the Company's announcements (the "**Announcements**") and circular (the "**Circular**"), and we consent to all such disclosures, publications and references (the "**Consent**"). This report (the "**Report**") does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this Report. We assumed that financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions and explains the analysis methodology adopted in this appraisal process to calculate the value.

BASIS OF ANALYSIS

We have appraised the fair value of 100% equity interest in the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Our valuation is prepared in compliance with the requirements of International Valuation Standards published by The International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

COMPANY AND TRANSACTION BACKGROUND

Towngas Smart Energy was incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 1083.HK). The Company is a subsidiary of The Hong Kong and China Gas Company Limited (Stock Code: 0003.HK) and is principally engaged in the sales of piped gas, renewable energy and other types of energy, construction of gas pipelines, the sales of gas appliances and related products, and other value-added services in the People's Republic of China (the "**PRC**").

Shandong Jihua Gas is a joint venture established in 2005 and is principally engaged in gas operation, gas vehicle refueling operation, construction engineering design, and installation and maintenance of gas burning appliances.

We understand that the Company intends to conduct a share restructuring in relation to its equity interest in the Target.

The Proposed Transaction constitutes a discloseable and connected transaction for the Company and is, therefore, subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As such, the Company engaged us as an independent valuer to assess the fair value of 100% equity interest in the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have:

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Company and the Target to understand the history, business model, operations, business development plan, etc. of the Target for valuation purpose;
- Carried out research in the sectors concerned and collected relevant market data from reliable sources for analysis;
- Studied the information of the Target made available to us and considered the bases and assumptions of our conclusion of value;
- Selected an appropriate valuation method to analyze the market data and derived the estimated fair value of the Target; and
- Compiled this Report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should have been provided to us. We relied on such data, records and documents in arriving at our opinion of value and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target and their authorized representatives.

ECONOMIC OVERVIEW

Macroeconomic Overview of the PRC

The PRC's economy showed modest growth in 2023 despite facing various challenges. Domestic consumption continued to be the key driver, while trade performance remained suppressed due to faltering global demand. Moody's has downgraded the PRC's economic outlook to negative in December 2023. One of the reasons was the ongoing downsizing of the property sector, reflecting that the real estate crisis will remain a significant risk to the economy over the coming years.

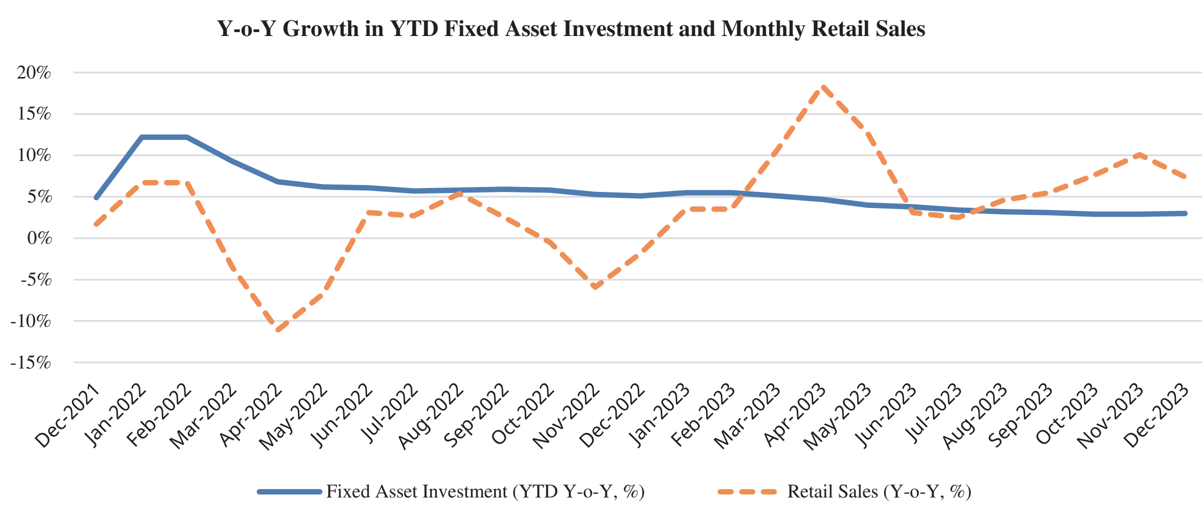
According to the National Bureau of Statistics ("**NBS**"), the PRC's gross domestic product ("**GDP**") grew by 5.2% year-on-year ("**y-o-y**") in 2023Q4. The annual GDP also grew by 5.2%, slightly higher than the target of 5.0%. The strong rebound in domestic consumption has largely contributed to the economic growth. In 2023, total retail sales of consumer goods reached RMB47.1 trillion, with a growth rate of 7.2%. Referring to the NBS, the contribution of domestic consumption to the PRC's economic growth was 82.5% in 2023, while the contribution was 39.4% in 2022. On the other hand, owing to weak global demand, trade performance only witnessed a minimal growth in 2023. Total trade volume slightly increased by 0.2% to RMB41.8 trillion. Among them, exports grew by 0.6% to RMB23.8 trillion and imports dropped by 0.3% to RMB18.0 trillion.

Decelerating growth of fixed asset investment was noted in 2023. Fixed asset investment grew by 3.0% in 2023, which was lower than the growth rate of 5.1% in 2022. In addition, property development investment declined by 9.6% in 2023. With the decreasing confidence on the PRC's property market, the housing demand, especially the investment demand, has reduced significantly. J.P. Morgan suggested that the current housing inventory is expected to take 3 to 4 years to digest, which may become a factor hindering the property development investment.

With reference to the NBS, the consumer price index ("**CPI**") dropped by 0.3% y-o-y in December 2023, which was the third consecutive decline. Notably, livestock meat prices fell the most significantly, with a y-o-y decline of 15.9% in December. However, as the demand for tourism grew steadily, the prices of tourism rose by 6.8% y-o-y in December, partially offsetting the impact of livestock meat. On the other hand, due to the decreasing oil price and insufficient demand among industries, the producer price index ("**PPI**") also dropped by 2.7% y-o-y in December.

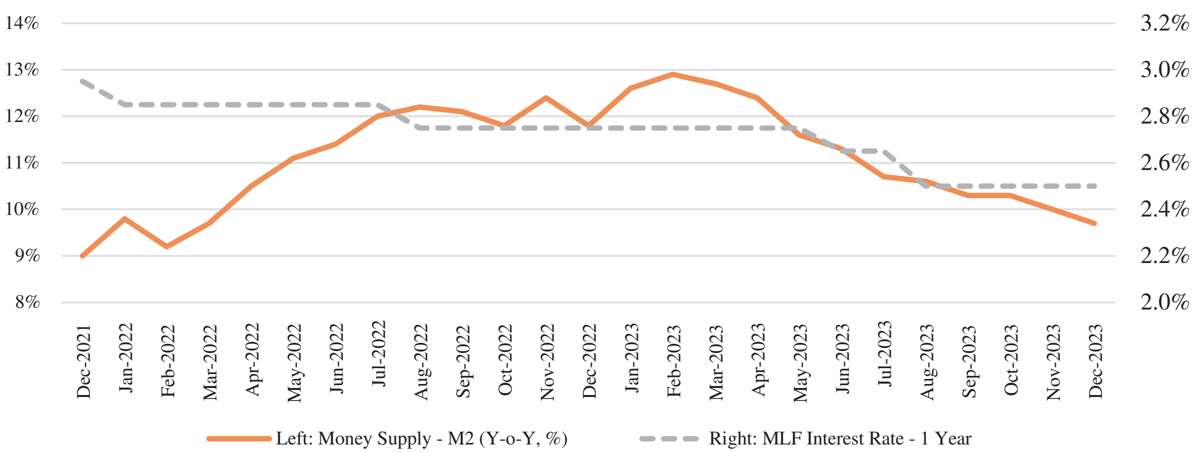
Financing costs remained stable in 2023Q4. In December 2023, the amount of medium-term lending facility ("**MLF**") executed by the People's Bank of China (the "**PBoC**") reached RMB1,450 billion, a significant increase of 145.3% compared to September, but the interest rate remained unchanged to 2.5%. Moreover, the money supply ("**M2**") in December 2023 amounted to RMB292.3 trillion, with a y-o-y growth rate of 9.7%. The substantial growth of the MLF and M2 has provided sufficient liquidity to the banking system and reduced borrowing costs.

Looking forward, although the real estate crisis is expected to be a short-term risk factor, domestic consumption will be the key driver to support economic growth. According to the International Monetary Fund ("**IMF**"), it is anticipated that the GDP per capita of the PRC will grow from USD12,670 in 2022 to USD16,803 in 2028, with a compound annual growth rate ("**CAGR**") of 4.8%.



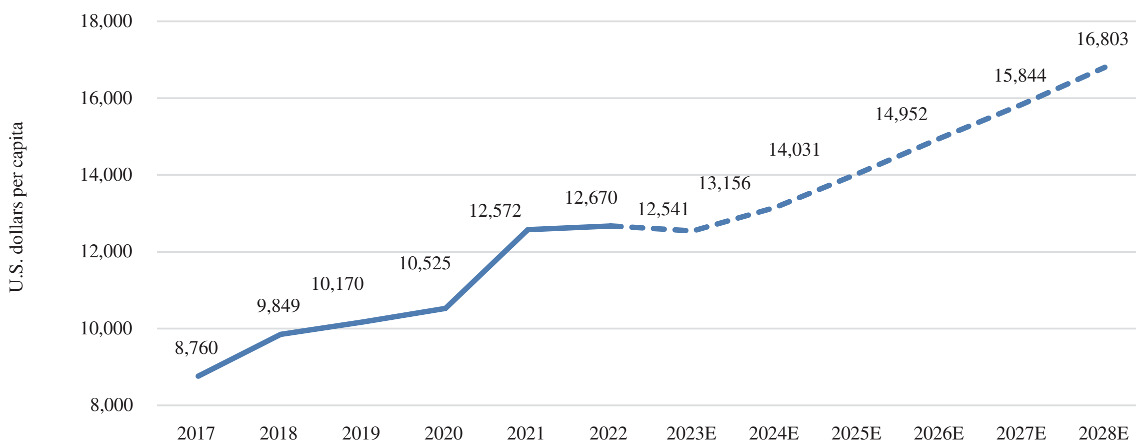
Source: NBS

Y-o-Y Growth in M2 and 1-Year MLF Interest Rate in the PRC



Source: NBS, the PBoC

GDP per capita of the PRC



Source: IMF

INDUSTRY OVERVIEW

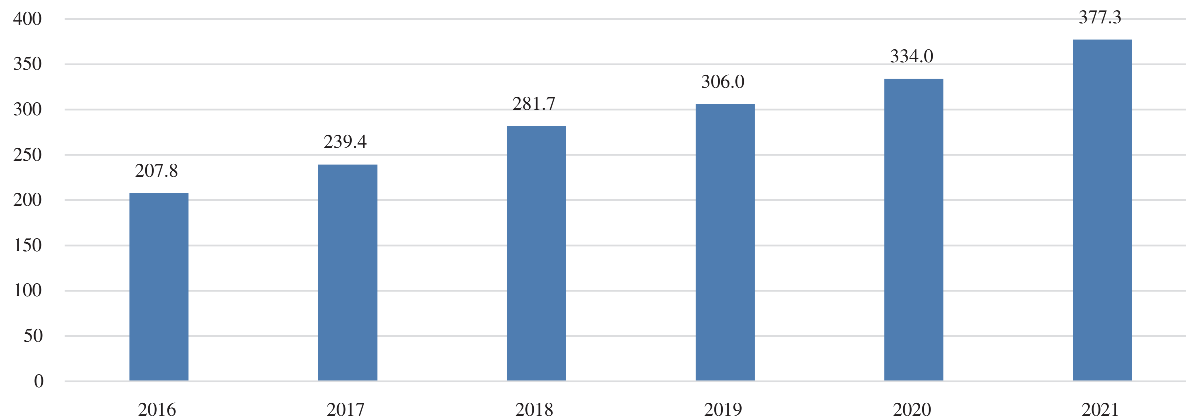
Overview of the PRC Natural Gas Market

The Chinese government has been actively promoting the use of natural gas as a cleaner and more efficient energy source to reduce pollution and combat climate change. According to the NBS, the natural gas consumption in the PRC has been increasing steadily from approximately 207.8 billion cubic meters in 2016 to approximately 377.3 billion cubic meters in 2021, representing a CAGR of approximately 12.7%. Notwithstanding the escalating consumption of natural gas, the energy consumption in the PRC is still dominated by the use of coal and crude oil, which contributed to approximately 74.1% of the total energy consumption in aggregate. Among the different fuel types for energy consumption, natural gas demonstrated a rising proportion from approximately 6.9% in 2017 to approximately 8.4% in 2022, according to data from the NBS.

The majority of the PRC's natural gas consumption comes from piped gas, which is transported through pipelines and distributed to end-users. According to the China Natural Gas Development Report (2023) published by the National Energy Administration of the PRC, the natural gas infrastructure has continuously been improved and the construction work for enhancing national gas storage capacity has been accelerating. The total length of the PRC's long-distance natural gas pipelines (including both city and district pipelines) reached 118,000 kilometers in 2022, of which over 3,000 kilometers were newly built during the year. In 2022, the new gas storage capacity of the PRC reached approximately 5 billion cubic meters. Certain large-scale gas pipelines and underground gas storage facilities have also commenced production during the year.

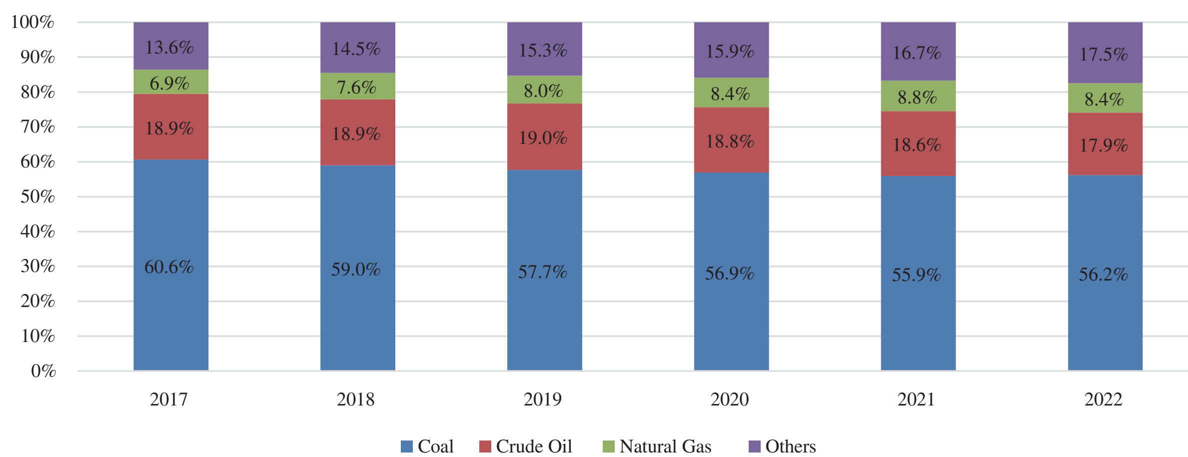
An array of policies has been promulgated by the Chinese government in an attempt to achieve the dual carbon goals of carbon peaking and carbon neutrality. For instance, in October 2021, the State Council of the PRC issued the Action Plan for Carbon Peaking Before 2030, which, among others, encourages the use of natural gas in various industries and fields. Subsequently, the Action Plan for Carbon Peaking for Shandong Province was rolled out in December 2022, which aims to enhance natural gas infrastructures and pipelines network in Shandong Province. The natural gas supply capacity for Shandong Province is targeted to reach 45 billion cubic meters in 2030. With a rising public awareness of using cleaner energy source and reducing carbon emissions, coupled with the support from the government through the implementation of such policies, are expected to fuel the further development of the natural gas industry in the PRC.

Natural Gas Consumption in the PRC (2016 - 2021)
(in billion cubic meters)



Source: NBS

Energy Consumption in the PRC by Fuel Type (2017 - 2022)



Source: NBS

LIMITATIONS OF THE REPORT

The Report is addressed strictly to the Directors for their internal reference only and, where relevant, for a basis of disclosure purpose under the requirement of the Listing Rules. We will not be liable for any unauthorized use of the Report. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Transaction. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Transaction and such remain the sole responsibility of the Directors and the management of the Company (the "**Management**").

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, especially for the historical financial information of the Target as of 31 March 2024 provided by the Management, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for accuracy and reliability of any information obtained from public sources.

The outbreak of the Coronavirus Disease 2019 ("**COVID-19**"), as declared by the World Health Organization as a global pandemic on 11 March 2020, has been adversely affecting the global economy and the financial markets. As such, the subsequent impact due to COVID-19 has imposed an unprecedented set of circumstances on which to base a valuation judgment as of the Valuation Date. In particular, the increased volatility in political, legal, fiscal, and economic conditions and/or other market situations as a result of COVID-19 would bring higher uncertainties to the underlying assumptions. Consequently, a higher degree of caution should be attached to our valuation than would normally be the case.

VALUATION ASSUMPTIONS OF BUSINESS ENTERPRISE VALUE ANALYSIS

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the region operated by the Target and specific competitive environments affecting the industry;
- the business risks of the Target;
- the selected comparable companies are engaging in business operations similar to the Target;
- the experience of the management team of the Target and support from their shareholders; and
- the legal and regulatory issues of the industry in general.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

VALUATION APPROACH

General Valuation Approaches

There are three generally accepted approaches to appraise the fair value of the equity interest in the Target, namely Income Approach, Cost Approach and Market Approach. All three of them have been considered regarding the valuation of the Target.

Income Approach	The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Market Approach

The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal regarding the fair value of the equity interest in the Target, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in current appraisal as it assumed the assets and liabilities of the Target are separable and can be sold separately. This methodology is more appropriate for the industries that their assets are highly liquid, like property development and financial institution. Thus, Cost Approach is not adopted in this valuation.

- Income Approach is also considered inappropriate as plenty of unobservable and subjective assumptions were involved in formulating the financial projections of the Target, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.

- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of the Target, their market values are good indicators of the industry of the Target. Therefore, Market Approach has been adopted in this valuation.

There are two methods commonly used in performing Market Approach, namely comparable transactions and comparable companies.

Comparable Transactions Method

The comparable transactions are selected for the Target with reference to the following selection criteria:

- The primary industry of the acquiree is being in industry of gas utilities, or oil and gas storage and transportation, under Global Industry Classification Standard, as extracted from S&P Capital IQ;

- The principal business of the acquiree is the sales and distribution of piped gas or natural gas;
- The principal business activities of the acquiree are mainly conducted in the PRC;
- The transaction was completed and announced between April 2023 and March 2024; and
- The financial information of the companies is available to the public.

Based on the above selection criteria, there was no comparable transaction with the acquiree engaging in similar businesses in the PRC as the Target during the selected period. Given the fact that no recent comparable transaction can be identified, we consider that the comparable transactions method is not appropriate for the valuation of 100% equity interest in the Target.

Comparable Companies Method

Comparable companies method is therefore selected as the primary method for the valuation of the 100% equity interest in the Target. By adopting comparable companies method, we have to select the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The comparable public companies are selected with reference to the following selection criteria:

- The primary industry of the companies is being in industry of gas utilities, or oil and gas storage and transportation, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the companies is the sales and distribution of piped gas or natural gas;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed in all major exchange markets in the PRC (including Hong Kong);

- The net asset value ("**NAV**") (excluding minority interest) of the companies based on the latest financial information available as of the Valuation Date is between RMB1 billion to RMB5 billion; and

- The financial information of the companies is available to the public.

During our research process, as obtained on the best effort basis, we have identified an exhaustive list of 16 comparable companies that are engaged in the sales and distribution of piped gas or natural gas. As mentioned above, since no two companies are ever exactly alike, the differences should not overshadow the similarities of the business nature of the companies. We consider these companies are comparable to the Target.

Details of the selected comparable companies are listed as follows:

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target(1)
1)	Tianjin Jinran Public Utilities Company Limited ("**Tianjin Jinran**")	SEHK: 1265	Hong Kong	Tianjin Jinran Public Utilities Company Limited engages in the operation and management of gas pipeline infrastructure, and the sale and distribution of piped gas to industrial, enterprise, and residential users in the PRC.	Relevant to the business of the Target: Sales of Piped Gas (96.9%)
2)	Binhai Investment Company Limited ("**Binhai Investment**")	SEHK: 2886	Hong Kong	Binhai Investment Company Limited, an investment holding company, operates in gas business in the PRC. It operates through Sales of Piped Natural Gas; Construction and Gas Pipeline Installation Service; Gas Passing through Service; and Sales of Bottled Natural Gas segments.	Relevant to the business of the Target: Sales of Piped Natural Gas (91.3%)
3)	Huzhou Gas Co., Ltd. ("**Huzhou Gas**")	SEHK: 6661	Hong Kong	Huzhou Gas Co., Ltd. operates as a piped natural gas distributor in Huzhou, the PRC. The company is also involved in the construction and installing of end-user pipeline network, as well as gas facilities for property developers, and owners or occupants of residential and non-residential properties.	Relevant to the business of the Target: Sales of Gas (89.1%)
4)	China Oil And Gas Group Limited ("**China Oil And Gas**")	SEHK: 603	Hong Kong	China Oil and Gas Group Limited, an investment holding company, engages in the sales and distribution of natural gas, and the construction and connection of gas pipeline. It is also involved in the piped city gas business, as well as design of gas pipelines and transportation, distribution, and sale of compressed natural gas and liquefied natural gas.	Relevant to the business of the Target: Sales and Distribution of Natural Gas and Other Related Products (83.9%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[(1)]
5)	Chinese People Holdings Company Limited ("**Chinese People Holdings**")	SEHK:681	Hong Kong	Chinese People Holdings Company Limited, an investment holding company, engages in the piped gas transmission and distribution, cylinder gas supply, gas distribution, and FMCG and food ingredients supply businesses in the PRC.	Relevant to the business of the Target: Piped Gas Transmission and Distribution and Gas Distribution (69.8%)
6)	Beijing Gas Blue Sky Holdings Limited ("**Beijing Gas Blue Sky**")	SEHK:6828	Hong Kong	Beijing Gas Blue Sky Holdings Limited, an investment holding company, engages in the sale and distribution of natural gas and other related products to residential, industrial, and commercial consumers.	Relevant to the business of the Target: Trading and Distribution of Natural Gas (51.5%); City Gas Operation (45.7%)
7)	Changchun Gas Co,.Ltd ("**Changchun Gas**")	SHSE: 600333	The PRC	Changchun Gas Co,.Ltd produces and sells natural gas in the PRC. It also engages in the production and sale of gas appliances; supply of liquefied petroleum gas; refueling of automobiles; installation of gas engineering; sale of gas direct-fired air conditioners; and real estate leasing activities.	Relevant to the business of the Target: Sales of Natural Gas (85.5%)
8)	Bestsun Energy Co., Ltd. ("**Bestsun Energy**")	SHSE: 600681	The PRC	Bestsun Energy Co., Ltd. engages in the city gas business. It is involved in pipeline gas sales; and provides gas engineering installation services and gas appliances.	Relevant to the business of the Target: Sales of Natural Gas (79.1%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[1]
9)	Guizhou Gas Group Corporation Ltd. (“**Guizhou Gas**”)	SHSE: 600903	The PRC	Guizhou Gas Group Corporation Ltd. operates as a city gas and energy supply service provider in the PRC. The company engages in the construction, operation, and service management, as well as related engineering design, construction, and maintenance of natural gas pipelines, urban gas transmission and distribution systems, liquefied natural gas receiving and reserve supply stations, and gas filling stations.	Relevant to the business of the Target: Sales of Natural Gas and Installation Business (96.3%)
10)	Chengdu Gas Group Corporation Ltd. (“**Chengdu Gas**”)	SHSE: 603053	The PRC	Chengdu Gas Group Corporation Ltd. engages in the urban gas supply business in the PRC. It also engages in the planning, design, construction installation, transmission and distribution, application, management of gas; gas intelligent system research and development; and equipment manufacturing businesses.	Relevant to the business of the Target: Sales of Natural Gas (82.9%)
11)	Xinjiang Torch Gas Co., Ltd (“**Xinjiang Torch Gas**”)	SHSE: 603080	The PRC	Xinjiang Torch Gas Co., Ltd operates as a gas service company in the PRC. It engages in urban gas supply; operation and management of refuelling stations; production and supply of heat; and installation of gas facilities and equipment, as well as provision of taxi passenger service.	Relevant to the business of the Target: Gas and Refined Oil Business (77.7%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[(1)]
12)	Henan Lantian Gas Co., Ltd. ("**Henan Lantian Gas**")	SHSE: 605368	The PRC	Henan Lantian Gas Co.,Ltd. transports and sells natural gas pipelines. The company develops and utilizes natural gas related products, as well as involved in natural gas pipeline management services. It also engages in idstream long-distance natural gas pipeline and downstream city gas businesses.	Relevant to the business of the Target: Sales of Pipeline Gas (46.9%); Sales of City Gas (38.3%)
13)	Shandong Shengli Co., Ltd. ("**Shandong Shengli**")	SZSE: 000407	The PRC	Shandong Shengli Co., Ltd. engages in the natural gas, plastic pipeline, and other industrial businesses in the PRC. The company invests in, constructs, and operates gas transmission and distribution pipelines, natural gas urban pipeline networks, liquefied natural gas (LNG), compressed natural gas (CNG), and natural gas distributed energy. It also provides natural gas application services for industry, commerce, residents, and other fields; natural gas supply for vehicles using natural gas in the fields of highways; and urban traffic and transportation services, as well as solutions in the field of natural gas.	Relevant to the business of the Target: Natural Gas business (78.8%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target(1)
14)	Delong Composite Energy Group Co., Ltd. (“**Delong Composite Energy**”)	SZSE: 000593	The PRC	Delong Composite Energy Group Co., Ltd. engages in the supply and distribution of natural gas through pipelines for urban residents, commercial users, and industrial users in the PRC. The company is involved in the natural gas transportation; construction and management of various gas pipeline networks; city gas operation and sales; investment and operation of vehicle refuelling stations; CNG/LNG supply; and development and construction of comprehensive energy utilization projects.	Relevant to the business of the Target: Gas Distribution and Related Services (93.5%)
15)	Shaanxi Meineng Clean Energy Corp.,Ltd. (“**Shaanxi Meineng Clean Energy**”)	SZSE: 001299	The PRC	Shaanxi Meineng Clean Energy Corp.,Ltd. operates as a professional gas operating company in the PRC. The company invests, constructs, and operates city gas projects, compressed natural gas refuelling stations, LNG production plants and refuelling stations, coal-to-natural gas production plants, and gas transmission pipelines.	Relevant to the business of the Target: Sales of Natural Gas (78.4%)
16)	Top Resource Energy Co., Ltd. (“**Top Resource Energy**”)	SZSE: 300332	The PRC	Top Resource Energy Co., Ltd. engages in the trading and sale of natural gas, pipeline transportation, urban gas transmission and distribution, gas engineering design, and technical services.	Relevant to the business of the Target: Gas Supply and Installation Business (94.5%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

As over 50% of revenue of the above comparable companies are generated from the sales and distribution of piped gas or natural gas, these comparable companies, together with the Target, are considered to be similarly subject to the fluctuations in the economy and performance of the natural gas industry, among other factors. Thus, we consider they are confronted with similar industry risks and rewards.

Below are the financial details of the comparable companies:

#	Company Name	Stock Code	Reporting Currency	Last Twelve Months ("LTM") Financials Sales	Net Profits/ (Losses) available to Common Shareholders	NAV (Excluding Minority Interest)
1)	Tianjin Jinran	SEHK: 1265	RMB'million	1,781	(155)	1,560
2)	Binhai Investment	SEHK: 2886	HKD'million	6,407	257	2,122
3)	Huzhou Gas	SEHK: 6661	RMB'million	2,436	111	1,124
4)	China Oil And Gas	SEHK: 603	HKD'million	18,491	768	5,178
5)	Chinese People Holdings	SEHK: 681	RMB'million	2,514	(232)	2,500
6)	Beijing Gas Blue Sky	SEHK: 6828	HKD'million	2,150	91	1,287
7)	Changchun Gas	SHSE: 600333	RMB'million	1,983	(91)	1,906
8)	Bestsun Energy	SHSE: 600681	RMB'million	5,061	358	3,537
9)	Guizhou Gas	SHSE: 600903	RMB'million	6,421	300	3,232
10)	Chengdu Gas	SHSE: 603053	RMB'million	5,121	504	4,342
11)	Xinjiang Torch Gas	SHSE: 603080	RMB'million	969	129	1,410
12)	Henan Lantian Gas	SHSE: 605368	RMB'million	4,947	606	3,837
13)	Shandong Shengli	SZSE: 000407	RMB'million	4,677	153	2,884
14)	Delong Composite Energy	SZSE: 000593	RMB'million	1,577	71	1,145
15)	Shaanxi Meineng Clean Energy	SZSE: 001299	RMB'million	545	82	1,278
16)	Top Resource Energy	SZSE: 300332	RMB'million	4,474	409	4,298

Source: Bloomberg

Adopted Valuation Multiples

After selecting the abovementioned comparable companies, we have to determine the appropriate valuation multiples for the valuation of the Target, in which we have considered price-to-earnings ("**P/E**"), price-to-book ("**P/B**"), enterprise value/sales ("**EV/S**") and enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiples.

EV/S multiple is considered not appropriate for the valuation of the Target because it does not consider the profitability of the Target nor the comparable companies. As EV/S multiple only focus on the sales amounts but not the margins, the result will be easily distorted if the cost structure is not being taken into account. Thus, EV/S multiple is not adopted in the valuation of the Target.

P/E and EV/EBITDA multiples are commonly adopted for the valuation of profit-making company with stable earnings. However, given that the Target was loss making for the financial year ended 31 December 2023, both P/E and EV/EBITDA multiples are considered to be not appropriate for the valuation of the Target.

P/B multiple is considered appropriate for the valuation of the Target, as the business for sales and distribution of piped gas or natural gas requires heavy investment in fixed assets, in which the book value and current P/B multiple can reflect its business scales and trading premium or discount to its respective assets. Hence, it is adopted in the valuation of the Target.

The P/B multiples of comparable companies of the Target are as follows:

No.	Company Name	Reporting Currency (in million)	Market Capitalization as of 31 March 2024[1]	Book Equity (Excluding Minority Interest)[1]	P/B Multiple
1	Tianjin Jinran	RMB	357	1,560	N/A[2]
2	Binhai Investment	HKD	1,610	2,122	0.76x
3	Huzhou Gas	RMB	1,028	1,124	0.91x
4	China Oil And Gas	HKD	1,139	5,178	N/A[2]
5	Chinese People Holdings	RMB	206	2,500	N/A[2]
6	Beijing Gas Blue Sky	HKD	1,023	1,287	0.80x
7	Changchun Gas	RMB	2,527	1,906	1.33x
8	Bestsun Energy	RMB	5,001	3,537	1.41x
9	Guizhou Gas	RMB	7,993	3,232	N/A[2]
10	Chengdu Gas	RMB	8,418	4,342	1.94x
11	Xinjiang Torch Gas	RMB	2,019	1,410	1.43x
12	Henan Lantian Gas	RMB	9,387	3,837	N/A[2]
13	Shandong Shengli	RMB	2,807	2,884	0.97x
14	Delong Composite Energy	RMB	1,983	1,145	1.73x
15	Shaanxi Meineng Clean Energy	RMB	2,309	1,278	1.81x
16	Top Resource Energy	RMB	5,388	4,298	1.25x
				Maximum	1.94x
				Minimum	0.76x
				Average	**1.30x**

Notes:

(1) Data sourced from Bloomberg and the financial statements of the comparable companies. The equity values of the comparable companies are computed based on the market capitalization of the companies as of 31 March 2024. Data for book equity (excluding minority interest) are based on the latest financial data of the comparable companies available as of the Valuation Date.

(2) The P/B multiple of the underlying company as of the Valuation Date was located away from the average by more than 1 standard deviation and hence was considered as an outlier.

Valuation Result

	RMB'000
NAV (Excluding Minority Interest) of the Target as of 31 March 2024[1]	1,983,616
Adopted P/B Multiple	1.30x
Estimated 100% Equity Value of the Target (Marketable Basis) [2]	**2,586,537**
Lack of Marketability Discount ("**LOMD**") [3]	(530,240)
Estimated 100% Equity Value of the Target (Non-Marketable Basis)	**2,056,297**

Notes:

(1) The financial data is based on the financial statements of the Target as of 31 March 2024 provided by the Company.

(2) The numbers may not foot due to rounding.

(3) LOMD reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As the Target is a privately held company in which the shareholdings are non-marketable interest, LOMD was adopted to adjust the marketable interest fair value as derived from the P/B multiples of public listed companies to non-marketable interest fair value of the Target's shares.

The report "Stout Restricted Stock Study Companion Guide (2023 edition)" by Stout Risius Ross, LLC, a reputable research company, suggested an average marketability discount of 20.50% which is based on 776 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through December 2022. A marketability discount of 20.50% is considered appropriate and suitable for the valuation of the Target to reflect the non-marketable basis of the fair value of the Target's shares.

The value of non-marketable interest can be calculated from marketable interest using the following formula:

Fair Value of Non-Marketable Interest = Fair Value of Marketable Interest x (1– LOMD)

CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that as of the Valuation Date, the fair value of the 100% equity value of the Target is **RMB2,056,297,000** (**RENMINBI TWO BILLION FIFTY-SIX MILLION TWO HUNDRED AND NINETY-SEVEN THOUSAND ONLY**).

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in Towngas Smart Energy Company Limited nor the value reported.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited

Vincent C B Pang
CFA, FCPA (HK), FCPA (Aus.), MRICS, RICS Registered Valuer
Managing Partner

Analysed and Reported by:
Leo L Lee
CFA
Associate Director
Chalet K Y Wong
CFA
Senior Analyst
Phoebe W Y Cheng
Analyst

Note: *Mr. Vincent Pang is a member of CFA Institute and CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of Royal Institution of Chartered Surveyors (RICS) and a registered valuer of RICS. Vincent has over 20-year experience in financial valuation and business consulting in Hong Kong and the PRC.*

APPENDIX – GENERAL LIMITATIONS AND CONDITIONS

This Report was prepared based on the following general assumptions and limiting conditions:

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.

- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the equity interest in the Target appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.

- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.

- This Report has been prepared solely for the use or uses stated. Except for such uses and extraction of or reference to the Report by the Company, its financial advisors, independent financial advisor, accountants, auditors, legal advisers and other professional advisors for their respective work in relation to the Proposed Transaction, it is not intended for any other use or purpose or use by any third parties. We hereby disclaim that we are not liable for any damages and/or loss arisen in connection with any such unintended use.

- Prior written consent must be obtained from AVISTA Valuation Advisory Limited for publication of this Report, except under the Consent. Except for disclosure in the Announcements and/or the Circular in relation to the Proposed Transaction, no part of this Report (including without limitation any conclusion, the identity of any individuals signing or associated with this Report or the firms/companies with which they are connected, or any reference to the professional associations or organisations with which they are affiliated or the designations awarded by those organisations) shall be disclosed, disseminated or divulged to third parties by any means of publications such as prospectus, advertising materials, public relations, news.

- We assume all applicable laws and governmental regulations are being complied with unless otherwise stated in this Report. We have also assumed responsible ownership and that all necessary licenses, consents, or other approval from the relevant authority or private organisations have been or to be obtained or renewed for any use that is relevant to value analysis in this Report.

The following is the text of the valuation report dated 31 October 2024 on the fair value of 100% equity interest in Shandong Towngas as at 31 March 2024 prepared for the purpose of incorporation in this circular received from AVISTA Valuation Advisory Limited.

The Board of Directors 31 October 2024

The Hong Kong and China Gas Company Limited
23rd Floor, 363 Java Road
North Point
Hong Kong

Towngas Smart Energy Company Limited
23rd Floor, 363 Java Road
North Point
Hong Kong

Dear Sirs/Madams,

Re: Valuation of 100% Equity Interest in 山東港華燃氣集團有限公司

In accordance with your instructions, AVISTA Valuation Advisory Limited ("**AVISTA**" or "**we**") has conducted valuation in connection with the fair value of the 100% equity interest in 山東港華燃氣集團有限公司 ("**Shandong Towngas**" or the "**Target**") for The Hong Kong and China Gas Company Limited (the "**Company**", "**HKCG**" or "**you**") and Towngas Smart Energy Company Limited ("**Towngas Smart Energy**") as of 31 March 2024 (the "**Valuation Date**"). We understand that the Company intends to conduct a share restructuring in relation to its equity interest in the Target (the "**Proposed Transaction**").

It is our understanding that this appraisal is strictly addressed to the directors of the Company and of Towngas Smart Energy (the "**Directors**") and used for the Proposed Transaction solely. In addition, we acknowledge that this report may be disclosed or made available to the public under the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and disclosed or referred to in Towngas Smart Energy's announcements (the "**Announcements**") and circular (the "**Circular**"), and we consent to all such disclosures, publications and references (the "**Consent**"). This report (the "**Report**") does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this Report. We assumed that financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions and explains the analysis methodology adopted in this appraisal process to calculate the value.

BASIS OF ANALYSIS

We have appraised the fair value of 100% equity interest in the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Our valuation is prepared in compliance with the requirements of International Valuation Standards published by The International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

COMPANY AND TRANSACTION BACKGROUND

HKCG (together with its subsidiaries as the "**Group**") was incorporated in Hong Kong with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 0003.HK). The Group is principally engaged in the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses in Hong Kong and the People's Republic of China (the "**PRC**").

Shandong Towngas (previously known as 濟南港華燃氣有限公司) is a joint venture established in 2003 and is principally engaged in gas operation, gas vehicle refueling operation, construction engineering design, and installation and maintenance of gas burning appliances.

We understand that the Company intends to conduct a share restructuring in relation to its equity interest in the Target.

The Proposed Transaction constitutes a discloseable and connected transaction for Towngas Smart Energy and is, therefore, subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As such, the Company engaged us as an independent valuer to assess the fair value of 100% equity interest in the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have:

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Company and the Target to understand the history, business model, operations, business development plan, etc. of the Target for valuation purpose;
- Carried out research in the sectors concerned and collected relevant market data from reliable sources for analysis;
- Studied the information of the Target made available to us and considered the bases and assumptions of our conclusion of value;
- Selected an appropriate valuation method to analyze the market data and derived the estimated fair value of the Target; and
- Compiled this Report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should have been provided to us. We relied on such data, records and documents in arriving at our opinion of value and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target and their authorized representatives.

ECONOMIC OVERVIEW

Macroeconomic Overview of the PRC

The PRC's economy showed modest growth in 2023 despite facing various challenges. Domestic consumption continued to be the key driver, while trade performance remained suppressed due to faltering global demand. Moody's has downgraded the PRC's economic outlook to negative in December 2023. One of the reasons was the ongoing downsizing of the property sector, reflecting that the real estate crisis will remain a significant risk to the economy over the coming years.

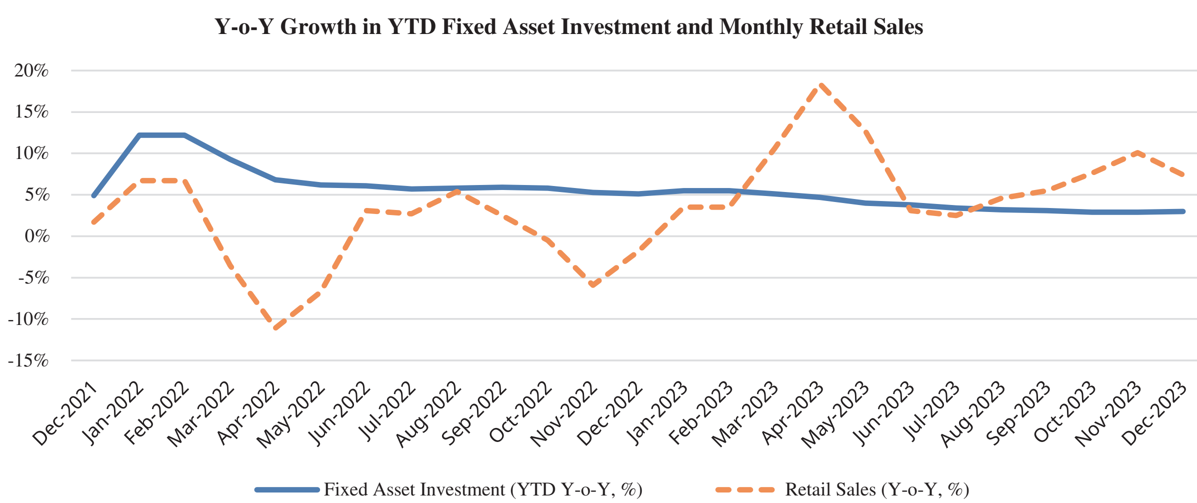
According to the National Bureau of Statistics ("**NBS**"), the PRC's gross domestic product ("**GDP**") grew by 5.2% year-on-year ("**y-o-y**") in 2023Q4. The annual GDP also grew by 5.2%, slightly higher than the target of 5.0%. The strong rebound in domestic consumption has largely contributed to the economic growth. In 2023, total retail sales of consumer goods reached RMB47.1 trillion, with a growth rate of 7.2%. Referring to the NBS, the contribution of domestic consumption to the PRC's economic growth was 82.5% in 2023, while the contribution was 39.4% in 2022. On the other hand, owing to weak global demand, trade performance only witnessed a minimal growth in 2023. Total trade volume slightly increased by 0.2% to RMB41.8 trillion. Among them, exports grew by 0.6% to RMB23.8 trillion and imports dropped by 0.3% to RMB18.0 trillion.

Decelerating growth of fixed asset investment was noted in 2023. Fixed asset investment grew by 3.0% in 2023, which was lower than the growth rate of 5.1% in 2022. In addition, property development investment declined by 9.6% in 2023. With the decreasing confidence on the PRC's property market, the housing demand, especially the investment demand, has reduced significantly. J.P. Morgan suggested that the current housing inventory is expected to take 3 to 4 years to digest, which may become a factor hindering the property development investment.

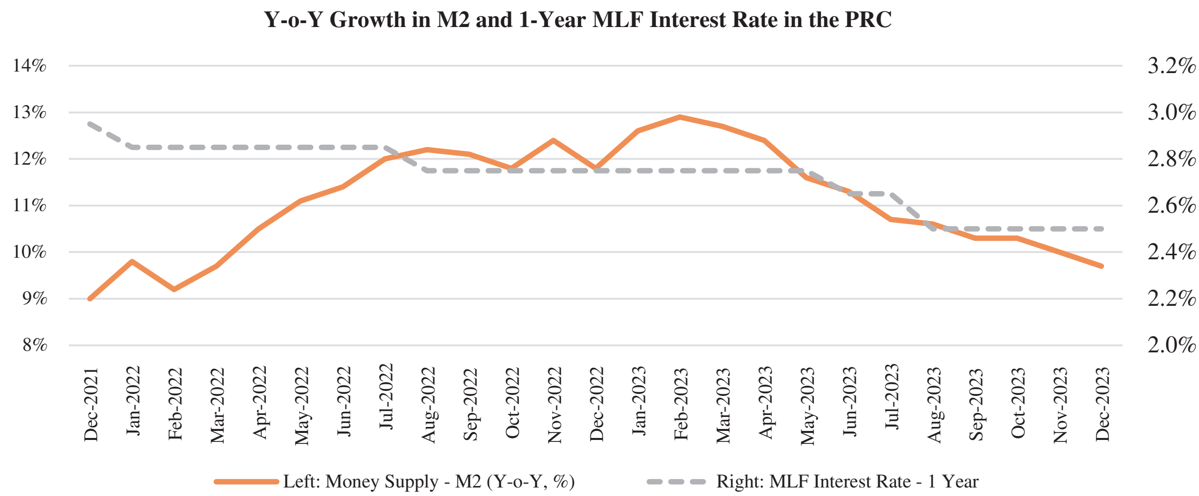
With reference to the NBS, the consumer price index ("**CPI**") dropped by 0.3% y-o-y in December 2023, which was the third consecutive decline. Notably, livestock meat prices fell the most significantly, with a y-o-y decline of 15.9% in December. However, as the demand for tourism grew steadily, the prices of tourism rose by 6.8% y-o-y in December, partially offsetting the impact of livestock meat. On the other hand, due to the decreasing oil price and insufficient demand among industries, the producer price index ("**PPI**") also dropped by 2.7% y-o-y in December.

Financing costs remained stable in 2023Q4. In December 2023, the amount of medium-term lending facility ("**MLF**") executed by the People's Bank of China (the "**PBoC**") reached RMB1,450 billion, a significant increase of 145.3% compared to September, but the interest rate remained unchanged to 2.5%. Moreover, the money supply ("**M2**") in December 2023 amounted to RMB292.3 trillion, with a y-o-y growth rate of 9.7%. The substantial growth of the MLF and M2 has provided sufficient liquidity to the banking system and reduced borrowing costs.

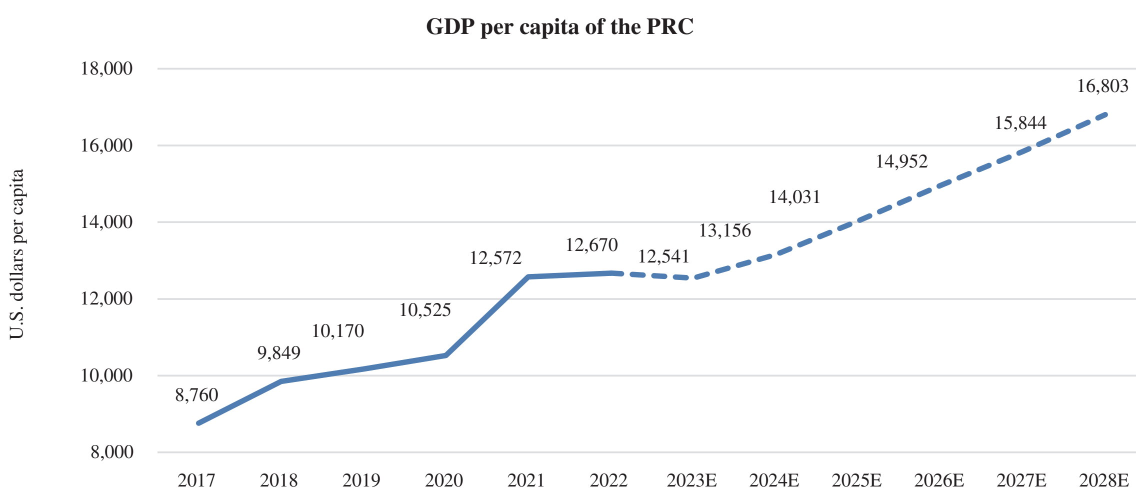
Looking forward, although the real estate crisis is expected to be a short-term risk factor, domestic consumption will be the key driver to support economic growth. According to the International Monetary Fund ("**IMF**"), it is anticipated that the GDP per capita of the PRC will grow from USD12,670 in 2022 to USD16,803 in 2028, with a compound annual growth rate ("**CAGR**") of 4.8%.



Source: NBS



Source: NBS, the PBoC



Source: IMF

INDUSTRY OVERVIEW

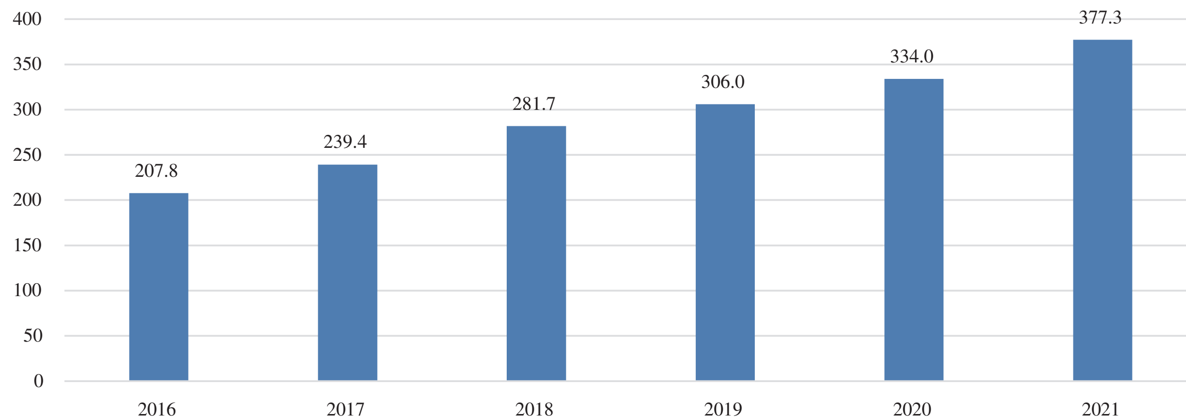
Overview of the PRC Natural Gas Market

The Chinese government has been actively promoting the use of natural gas as a cleaner and more efficient energy source to reduce pollution and combat climate change. According to the NBS, the natural gas consumption in the PRC has been increasing steadily from approximately 207.8 billion cubic meters in 2016 to approximately 377.3 billion cubic meters in 2021, representing a CAGR of approximately 12.7%. Notwithstanding the escalating consumption of natural gas, the energy consumption in the PRC is still dominated by the use of coal and crude oil, which contributed to approximately 74.1% of the total energy consumption in aggregate. Among the different fuel types for energy consumption, natural gas demonstrated a rising proportion from approximately 6.9% in 2017 to approximately 8.4% in 2022, according to data from the NBS.

The majority of the PRC's natural gas consumption comes from piped gas, which is transported through pipelines and distributed to end-users. According to the China Natural Gas Development Report (2023) published by the National Energy Administration of the PRC, the natural gas infrastructure has continuously been improved and the construction work for enhancing national gas storage capacity has been accelerating. The total length of the PRC's long-distance natural gas pipelines (including both city and district pipelines) reached 118,000 kilometers in 2022, of which over 3,000 kilometers were newly built during the year. In 2022, the new gas storage capacity of the PRC reached approximately 5 billion cubic meters. Certain large-scale gas pipelines and underground gas storage facilities have also commenced production during the year.

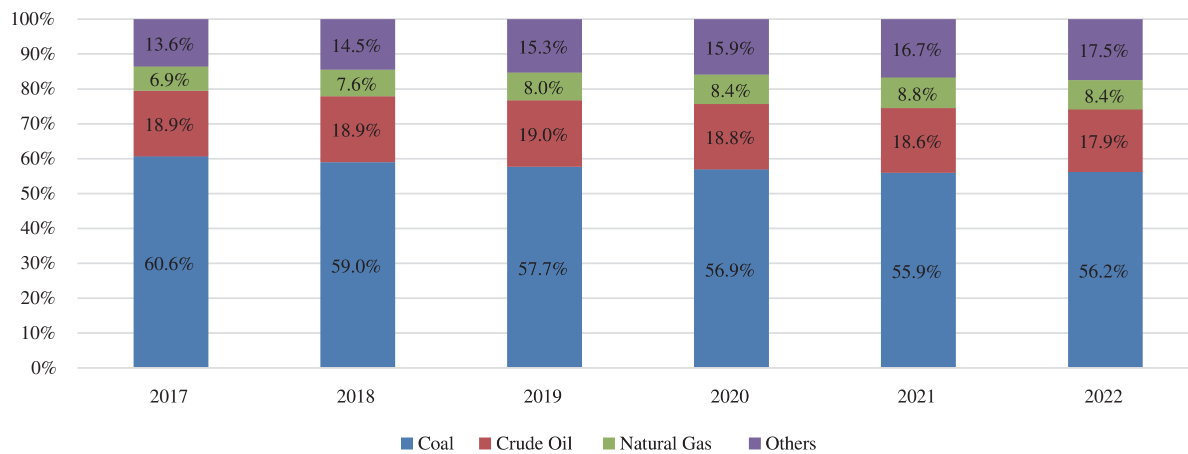
An array of policies has been promulgated by the Chinese government in an attempt to achieve the dual carbon goals of carbon peaking and carbon neutrality. For instance, in October 2021, the State Council of the PRC issued the Action Plan for Carbon Peaking Before 2030, which, among others, encourages the use of natural gas in various industries and fields. Subsequently, the Action Plan for Carbon Peaking for Shandong Province was rolled out in December 2022, which aims to enhance natural gas infrastructures and pipelines network in Shandong Province. The natural gas supply capacity for Shandong Province is targeted to reach 45 billion cubic meters in 2030. With a rising public awareness of using cleaner energy source and reducing carbon emissions, coupled with the support from the government through the implementation of such policies, are expected to fuel the further development of the natural gas industry in the PRC.

Natural Gas Consumption in the PRC (2016-2021)
(in billion cubic meters)



Source: NBS

Energy Consumption in the PRC by Fuel Type (2017-2022)



Source: NBS

LIMITATIONS OF THE REPORT

The Report is addressed strictly to the Directors for their internal reference only and, where relevant, for a basis of disclosure purpose under the requirement of the Listing Rules. We will not be liable for any unauthorized use of the Report. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Transaction. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Transaction and such remain the sole responsibility of the Directors and the management of the Company (the "**Management**").

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, especially for the historical financial information of the Target as of 31 March 2024 provided by the Management, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for accuracy and reliability of any information obtained from public sources.

The outbreak of the Coronavirus Disease 2019 ("**COVID-19**"), as declared by the World Health Organization as a global pandemic on 11 March 2020, has been adversely affecting the global economy and the financial markets. As such, the subsequent impact due to COVID-19 has imposed an unprecedented set of circumstances on which to base a valuation judgment as of the Valuation Date. In particular, the increased volatility in political, legal, fiscal, and economic conditions and/or other market situations as a result of COVID-19 would bring higher uncertainties to the underlying assumptions. Consequently, a higher degree of caution should be attached to our valuation than would normally be the case.

VALUATION ASSUMPTIONS OF BUSINESS ENTERPRISE VALUE ANALYSIS

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the region operated by the Target and specific competitive environments affecting the industry;
- the business risks of the Target;
- the selected comparable companies are engaging in business operations similar to the Target;
- the experience of the management team of the Target and support from their shareholders; and
- the legal and regulatory issues of the industry in general.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

VALUATION APPROACH

General Valuation Approaches

There are three generally accepted approaches to appraise the fair value of the equity interest in the Target, namely Income Approach, Cost Approach and Market Approach. All three of them have been considered regarding the valuation of the Target.

Income Approach	The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.
Cost Approach	The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.
Market Approach	The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal regarding the fair value of the equity interest in the Target, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in current appraisal as it assumed the assets and liabilities of the Target are separable and can be sold separately. This methodology is more appropriate for the industries that their assets are highly liquid, like property development and financial institution. Thus, Cost Approach is not adopted in this valuation.

- Income Approach is also considered inappropriate as plenty of unobservable and subjective assumptions were involved in formulating the financial projections of the Target, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.

- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of the Target, their market values are good indicators of the industry of the Target. Therefore, Market Approach has been adopted in this valuation.

There are two methods commonly used in performing Market Approach, namely comparable transactions and comparable companies.

Comparable Transactions Method

The comparable transactions are selected for the Target with reference to the following selection criteria:

- The primary industry of the acquiree is being in industry of gas utilities, or oil and gas storage and transportation, under Global Industry Classification Standard, as extracted from S&P Capital IQ;

- The principal business of the acquiree is the sales and distribution of piped gas or natural gas;

- The principal business activities of the acquiree are mainly conducted in the PRC;

- The transaction was completed and announced between April 2023 and March 2024; and

- The financial information of the companies is available to the public.

Based on the above selection criteria, there was no comparable transaction with the acquiree engaging in similar businesses in the PRC as the Target during the selected period. Given the fact that no recent comparable transaction can be identified, we consider that the comparable transactions method is not appropriate for the valuation of 100% equity interest in the Target.

Comparable Companies Method

Comparable companies method is therefore selected as the primary method for the valuation of the 100% equity interest in the Target. By adopting comparable companies method, we have to select the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The comparable public companies are selected with reference to the following selection criteria:

- The primary industry of the companies is being in industry of gas utilities, or oil and gas storage and transportation, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the companies is the sales and distribution of piped gas or natural gas;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed in all major exchange markets in the PRC (including Hong Kong);
- The net asset value ("**NAV**") (excluding minority interest) of the companies based on the latest financial information available as of the Valuation Date is between RMB1 billion to RMB5 billion; and
- The financial information of the companies is available to the public.

During our research process, as obtained on the best effort basis, we have identified an exhaustive list of 16 comparable companies that are engaged in the sales and distribution of piped gas or natural gas. As mentioned above, since no two companies are ever exactly alike, the differences should not overshadow the similarities of the business nature of the companies. We consider these companies are comparable to the Target.

Details of the selected comparable companies are listed as follows:

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[(1)]
1)	Tianjin Jinran Public Utilities Company Limited ("**Tianjin Jinran**")	SEHK: 1265	Hong Kong	Tianjin Jinran Public Utilities Company Limited engages in the operation and management of gas pipeline infrastructure, and the sale and distribution of piped gas to industrial, enterprise, and residential users in the PRC.	Relevant to the business of the Target:Sales of Piped Gas (96.9%)
2)	Binhai Investment Company Limited ("**Binhai Investment**")	SEHK: 2886	Hong Kong	Binhai Investment Company Limited, an investment holding company, operates in gas business in the PRC. It operates through Sales of Piped Natural Gas; Construction and Gas Pipeline Installation Service; Gas Passing through Service; and Sales of Bottled Natural Gas segments.	Relevant to the business of the Target: Sales of Piped Natural Gas (91.3%)
3)	Huzhou Gas Co., Ltd. ("**Huzhou Gas**")	SEHK: 6661	Hong Kong	Huzhou Gas Co., Ltd. operates as a piped natural gas distributor in Huzhou, the PRC. The company is also involved in the construction and installing of end-user pipeline network, as well as gas facilities for property developers, and owners or occupants of residential and non-residential properties.	Relevant to the business of the Target: Sales of Gas (89.1%)
4)	China Oil And Gas Group Limited ("**China Oil And Gas**")	SEHK: 603	Hong Kong	China Oil and Gas Group Limited, an investment holding company, engages in the sales and distribution of natural gas, and the construction and connection of gas pipeline. It is also involved in the piped city gas business, as well as design of gas pipelines and transportation, distribution, and sale of compressed natural gas and liquefied natural gas.	Relevant to the business of the Target: Sales and Distribution of Natural Gas and Other Related Products (83.9%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[1]
5)	Chinese People Holdings Company Limited ("**Chinese People Holdings**")	SEHK: 681	Hong Kong	Chinese People Holdings Company Limited, an investment holding company, engages in the piped gas transmission and distribution, cylinder gas supply, gas distribution, and FMCG and food ingredients supply businesses in the PRC.	Relevant to the business of the Target: Piped Gas Transmission and Distribution and Gas Distribution (69.8%)
6)	Beijing Gas Blue Sky Holdings Limited ("**Beijing Gas Blue Sky**")	SEHK: 6828	Hong Kong	Beijing Gas Blue Sky Holdings Limited, an investment holding company, engages in the sale and distribution of natural gas and other related products to residential, industrial, and commercial consumers.	Relevant to the business of the Target: Trading and Distribution of Natural Gas (51.5%); City Gas Operation (45.7%)
7)	Changchun Gas Co,.Ltd ("**Changchun Gas**")	SHSE: 600333	The PRC	Changchun Gas Co,.Ltd produces and sells natural gas in the PRC. It also engages in the production and sale of gas appliances; supply of liquefied petroleum gas; refueling of automobiles; installation of gas engineering; sale of gas direct-fired air conditioners; and real estate leasing activities.	Relevant to the business of the Target: Sales of Natural Gas (85.5%)
8)	Bestsun Energy Co., Ltd. ("**Bestsun Energy**")	SHSE: 600681	The PRC	Bestsun Energy Co., Ltd. engages in the city gas business. It is involved in pipeline gas sales; and provides gas engineering installation services and gas appliances.	Relevant to the business of the Target: Sales of Natural Gas (79.1%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[(1)]
9)	Guizhou Gas Group Corporation Ltd. ("**Guizhou Gas**")	SHSE: 600903	The PRC	Guizhou Gas Group Corporation Ltd. operates as a city gas and energy supply service provider in the PRC. The company engages in the construction, operation, and service management, as well as related engineering design, construction, and maintenance of natural gas pipelines, urban gas transmission and distribution systems, liquefied natural gas receiving and reserve supply stations, and gas filling stations.	Relevant to the business of the Target: Sales of Natural Gas and Installation Business (96.3%)
10)	Chengdu Gas Group Corporation Ltd. ("**Chengdu Gas**")	SHSE: 603053	The PRC	Chengdu Gas Group Corporation Ltd. engages in the urban gas supply business in the PRC. It also engages in the planning, design, construction installation, transmission and distribution, application, management of gas; gas intelligent system research and development; and equipment manufacturing businesses.	Relevant to the business of the Target: Sales of Natural Gas (82.9%)
11)	Xinjiang Torch Gas Co., Ltd ("**Xinjiang Torch Gas**")	SHSE: 603080	The PRC	Xinjiang Torch Gas Co., Ltd operates as a gas service company in the PRC. It engages in urban gas supply; operation and management of refuelling stations; production and supply of heat; and installation of gas facilities and equipment, as well as provision of taxi passenger service.	Relevant to the business of the Target: Gas and Refined Oil Business (77.7%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[1]
12)	Henan Lantian Gas Co., Ltd. ("**Henan Lantian Gas**")	SHSE: 605368	The PRC	Henan Lantian Gas Co.,Ltd. transports and sells natural gas pipelines. The company develops and utilizes natural gas related products, as well as involved in natural gas pipeline management services. It also engages in idstream long-distance natural gas pipeline and downstream city gas businesses.	Relevant to the business of the Target: Sales of Pipeline Gas (46.9%); Sales of City Gas (38.3%)
13)	Shandong Shengli Co., Ltd. ("**Shandong Shengli**")	SZSE: 000407	The PRC	Shandong Shengli Co., Ltd. engages in the natural gas, plastic pipeline, and other industrial businesses in the PRC. The company invests in, constructs, and operates gas transmission and distribution pipelines, natural gas urban pipeline networks, liquefied natural gas (LNG), compressed natural gas (CNG), and natural gas distributed energy. It also provides natural gas application services for industry, commerce, residents, and other fields; natural gas supply for vehicles using natural gas in the fields of highways; and urban traffic and transportation services, as well as solutions in the field of natural gas.	Relevant to the business of the Target: Natural Gas business (78.8%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target[(1)]
14)	Delong Composite Energy Group Co., Ltd. (“**Delong Composite Energy**”)	SZSE: 000593	The PRC	Delong Composite Energy Group Co., Ltd. engages in the supply and distribution of natural gas through pipelines for urban residents, commercial users, and industrial users in the PRC. The company is involved in the natural gas transportation; construction and management of various gas pipeline networks; city gas operation and sales; investment and operation of vehicle refuelling stations; CNG/LNG supply; and development and construction of comprehensive energy utilization projects.	Relevant to the business of the Target: Gas Distribution and Related Services (93.5%)
15)	Shaanxi Meineng Clean Energy Corp.,Ltd. (“**Shaanxi Meineng Clean Energy**”)	SZSE: 001299	The PRC	Shaanxi Meineng Clean Energy Corp.,Ltd. operates as a professional gas operating company in the PRC. The company invests, constructs, and operates city gas projects, compressed natural gas refuelling stations, LNG production plants and refuelling stations, coal-to-natural gas production plants, and gas transmission pipelines.	Relevant to the business of the Target: Sales of Natural Gas (78.4%)
16)	Top Resource Energy Co., Ltd. (“**Top Resource Energy**”)	SZSE: 300332	The PRC	Top Resource Energy Co., Ltd. engages in the trading and sale of natural gas, pipeline transportation, urban gas transmission and distribution, gas engineering design, and technical services.	Relevant to the business of the Target: Gas Supply and Installation Business (94.5%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data available as of the Valuation Date from Bloomberg and/or the latest available public disclosure on the annual financial result of the comparable companies for the year ended 31 December 2023.

As over 50% of revenue of the above comparable companies are generated from the sales and distribution of piped gas or natural gas, these comparable companies, together with the Target, are considered to be similarly subject to the fluctuations in the economy and performance of the natural gas industry, among other factors. Thus, we consider they are confronted with similar industry risks and rewards.

Below are the financial details of the comparable companies:

				Last Twelve Months ("LTM") Financials		
#	Company Name	Stock Code	Reporting Currency	Sales	Net Profits/ (Losses) available to Common Shareholders	NAV (Excluding Minority Interest)
1)	Tianjin Jinran	SEHK: 1265	RMB'million	1,781	(155)	1,560
2)	Binhai Investment	SEHK: 2886	HKD'million	6,407	257	2,122
3)	Huzhou Gas	SEHK: 6661	RMB'million	2,436	111	1,124
4)	China Oil And Gas	SEHK: 603	HKD'million	18,491	768	5,178
5)	Chinese People Holdings	SEHK: 681	RMB'million	2,514	(232)	2,500
6)	Beijing Gas Blue Sky	SEHK: 6828	HKD'million	2,150	91	1,287
7)	Changchun Gas	SHSE: 600333	RMB'million	1,983	(91)	1,906
8)	Bestsun Energy	SHSE: 600681	RMB'million	5,061	358	3,537
9)	Guizhou Gas	SHSE: 600903	RMB'million	6,421	300	3,232
10)	Chengdu Gas	SHSE: 603053	RMB'million	5,121	504	4,342
11)	Xinjiang Torch Gas	SHSE: 603080	RMB'million	969	129	1,410
12)	Henan Lantian Gas	SHSE: 605368	RMB'million	4,947	606	3,837
13)	Shandong Shengli	SZSE: 000407	RMB'million	4,677	153	2,884
14)	Delong Composite Energy	SZSE: 000593	RMB'million	1,577	71	1,145
15)	Shaanxi Meineng Clean Energy	SZSE: 001299	RMB'million	545	82	1,278
16)	Top Resource Energy	SZSE: 300332	RMB'million	4,474	409	4,298

Source: Bloomberg

Adopted Valuation Multiples

After selecting the abovementioned comparable companies, we have to determine the appropriate valuation multiples for the valuation of the Target, in which we have considered price-to-earnings ("**P/E**"), price-to-book ("**P/B**"), enterprise value/sales ("**EV/S**") and enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiples.

EV/S multiple is considered not appropriate for the valuation of the Target because it does not consider the profitability of the Target nor the comparable companies. As EV/S multiple only focus on the sales amounts but not the margins, the result will be easily distorted if the cost structure is not being taken into account. Thus, EV/S multiple is not adopted in the valuation of the Target.

P/E and EV/EBITDA multiples are commonly adopted for the valuation of profit-making company with stable earnings. Despite the EBITDA and net profit of the Target were positive for previous years, it is noted that there were huge fluctuations in the profitability of the Target. Hence, both P/E and EV/EBITDA multiples are considered to be not appropriate for the valuation of the Target.

P/B multiple is considered appropriate for the valuation of the Target, as the business for sales and distribution of piped gas or natural gas requires heavy investment in fixed assets, in which the book value and current P/B multiple can reflect its business scales and trading premium or discount to its respective assets. Hence, it is adopted in the valuation of the Target.

The P/B multiples of comparable companies of the Target are as follows:

No.	Company Name	Reporting Currency (in million)	Market Capitalization as of 31 March 2024[1]	Book Equity (Excluding Minority Interest)[1]	P/B Multiple
1	Tianjin Jinran	RMB	357	1,560	N/A[2]
2	Binhai Investment	HKD	1,610	2,122	0.76x
3	Huzhou Gas	RMB	1,028	1,124	0.91x
4	China Oil And Gas	HKD	1,139	5,178	N/A[2]
5	Chinese People Holdings	RMB	206	2,500	N/A[2]
6	Beijing Gas Blue Sky	HKD	1,023	1,287	0.80x
7	Changchun Gas	RMB	2,527	1,906	1.33x
8	Bestsun Energy	RMB	5,001	3,537	1.41x
9	Guizhou Gas	RMB	7,993	3,232	N/A[2]
10	Chengdu Gas	RMB	8,418	4,342	1.94x
11	Xinjiang Torch Gas	RMB	2,019	1,410	1.43x
12	Henan Lantian Gas	RMB	9,387	3,837	N/A[2]
13	Shandong Shengli	RMB	2,807	2,884	0.97x
14	Delong Composite Energy	RMB	1,983	1,145	1.73x
15	Shaanxi Meineng Clean Energy	RMB	2,309	1,278	1.81x
16	Top Resource Energy	RMB	5,388	4,298	1.25x
				Maximum	1.94x
				Minimum	0.76x
				Average	**1.30x**

Notes:

(1) Data sourced from Bloomberg and the financial statements of the comparable companies. The equity values of the comparable companies are computed based on the market capitalization of the companies as of 31 March 2024. Data for book equity (excluding minority interest) are based on the latest financial data of the comparable companies available as of the Valuation Date.

(2) The P/B multiple of the underlying company as of the Valuation Date was located away from the average by more than 1 standard deviation and hence was considered as an outlier.

Valuation Result

	RMB'000
NAV (Excluding Minority Interest) of the Target as of 31 March 2024[1]	3,212,585
Adopted P/B Multiple	1.30x
Estimated 100% Equity Value of the Target (Marketable Basis) [2]	**4,189,052**
Lack of Marketability Discount ("**LOMD**") [3]	(858,756)
Estimated 100% Equity Value of the Target (Non-Marketable Basis) [2]	**3,330,297**

Notes:

(1) The financial data is based on the financial statements of the Target as of 31 March 2024 provided by the Company.

(2) The numbers may not foot due to rounding.

(3) LOMD reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As the Target is a privately held company in which the shareholdings are non-marketable interest, LOMD was adopted to adjust the marketable interest fair value as derived from the P/B multiples of public listed companies to non-marketable interest fair value of the Target's shares.

The report "Stout Restricted Stock Study Companion Guide (2023 edition)" by Stout Risius Ross, LLC, a reputable research company, suggested an average marketability discount of 20.50% which is based on 776 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through December 2022. A marketability discount of 20.50% is considered appropriate and suitable for the valuation of the Target to reflect the non-marketable basis of the fair value of the Target's shares.

The value of non-marketable interest can be calculated from marketable interest using the following formula:

Fair Value of Non-Marketable Interest = Fair Value of Marketable Interest x (1– LOMD)

CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that as of the Valuation Date, the fair value of the 100% equity value of the Target is **RMB3,330,297,000** (**RENMINBI THREE BILLION THREE HUNDRED THIRTY MILLION TWO HUNDRED AND NINETY-SEVEN THOUSAND ONLY**).

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in The Hong Kong and China Gas Company Limited nor the value reported.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited

Vincent C B Pang
CFA, FCPA (HK), FCPA (Aus.), MRICS, RICS Registered Valuer
Managing Partner

Analysed and Reported by:
Leo L Lee
CFA
Associate Director
Chalet K Y Wong
CFA
Senior Analyst
Phoebe W Y Cheng
Analyst

Note: Mr. Vincent Pang is a member of CFA Institute and CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of Royal Institution of Chartered Surveyors (RICS) and a registered valuer of RICS. Vincent has over 20-year experience in financial valuation and business consulting in Hong Kong and the PRC.

APPENDIX – GENERAL LIMITATIONS AND CONDITIONS

This Report was prepared based on the following general assumptions and limiting conditions:

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.

- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the equity interest in the Target appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.

- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.

- This Report has been prepared solely for the use or uses stated. Except for such uses and extraction of or reference to the Report by the Company and Towngas Smart Energy, their financial advisors, independent financial advisor, accountants, auditors, legal advisers and other professional advisors for their respective work in relation to the Proposed Transaction, it is not intended for any other use or purpose or use by any third parties. We hereby disclaim that we are not liable for any damages and/or loss arisen in connection with any such unintended use.

- Prior written consent must be obtained from AVISTA Valuation Advisory Limited for publication of this Report, except under the Consent. Except for disclosure in the Announcements and/or the Circular in relation to the Proposed Transaction, no part of this Report (including without limitation any conclusion, the identity of any individuals signing or associated with this Report or the firms/companies with which they are connected, or any reference to the professional associations or organisations with which they are affiliated or the designations awarded by those organisations) shall be disclosed, disseminated or divulged to third parties by any means of publications such as prospectus, advertising materials, public relations, news.

- We assume all applicable laws and governmental regulations are being complied with unless otherwise stated in this Report. We have also assumed responsible ownership and that all necessary licenses, consents, or other approval from the relevant authority or private organisations have been or to be obtained or renewed for any use that is relevant to value analysis in this Report.

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

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: Personal interest	Interest in shares: Family interest	Interest in shares: Other interest	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
The Company	Lee Ka-kit *(Note 2)*	Discretionary beneficiary of discretionary trusts	–	–	2,379,921,776	–	2,379,921,776	68.38%
	Peter Wong Wai-yee	Beneficial owner	7,532,000	–	–	1,800,000	9,332,000	0.27%
	Martin Kee Wai-ngai	Beneficial owner	1,800,000	–	–	900,000	2,700,000	0.08%
	John Qiu Jian-hang	Beneficial owner	2,700,000	–	–	1,350,000	4,050,000	0.12%
HKCG	Lee Ka-kit *(Note 3)*	Discretionary beneficiary of discretionary trusts	–	–	7,748,692,715	–	7,748,692,715	41.53%

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
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. the Hon. 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 2,379,921,776 shares of the Company representing approximately 68.38% 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 2 discretionary trusts, respectively, held units in the Unit Trust. Dr. the Hon. Lee Ka-kit as one of the discretionary beneficiaries of the 2 discretionary trusts, was taken to have duties of disclosure in relation to these 7,748,692,715 shares 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) 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.

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 2023, 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. the Hon. Lee Ka-kit	Henderson Land Development HKCG
Mr. Peter Wong Wai-yee	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. the Hon. 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-yee, an executive Director and the Chief Executive Officer of the Company, is an executive director and the managing 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.

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. Although some of the businesses carried out by the HKCG 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 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 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 2023, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Somerley Capital Limited	corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
AVISTA Valuation Advisory Limited	independent professional valuer

As at the Latest Practicable Date, none of the Independent Financial Adviser and the Valuer had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, none of the Independent Financial Adviser and the Valuer had any direct or indirect interest in any assets which had been, since 31 December 2023, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Each of the Independent Financial Adviser and the Valuer has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its opinions, letters or reports and the references to its name, in the form and context in which they respectively appear.

8. DOCUMENTS ON DISPLAY

Copies of the Merger Transaction Agreements 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.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Towngas Smart Energy Company Limited (the "**Company**") will be held at Meeting Room S221 (Harbour Road Entrance), Hong Kong Convention and Exhibition Centre, Wanchai, Hong Kong on 20 November 2024 at 12:00 noon for considering and, if thought fit, passing, with or without modifications, the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the Merger Transaction Agreements (as defined in the circular of the Company dated 31 October 2024 (the "**Circular**") and copies of which have been produced to the meeting and marked "A", "B" and "C" respectively and initialed by the chairman of the meeting for identification purposes) and the transactions contemplated thereunder and in connection therewith (including the Transaction (as defined in the Circular)) be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company or any other person authorised by the board of directors of the Company from time to time or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to sign, execute, perform and deliver all such other agreements, instruments, documents and deeds, and do such acts or things and take all such steps as he, she or they may in his, her or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement or give effect to the Merger Transaction Agreements or the transactions contemplated thereunder or to be incidental to, ancillary to or in connection with the matters contemplated therein, including agreeing and making any modifications, amendments or variations to or waivers or extensions of the Merger Transaction Agreements or the transactions contemplated thereunder as may be necessary or appropriate."

By Order of the Board
Towngas Smart Energy Company Limited
Elsa Wong Lai-kin
Company Secretary

Hong Kong, 31 October 2024

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

Notes:

1. Members of the Company who are entitled to attend, speak and (subject to any applicable requirement of the Listing Rules to abstain from voting on any relevant resolution) vote at the EGM are those whose names appear as members of the Company on the register of members of the Company on 20 November 2024. In order to determine the members of the Company who are so entitled, the register of members of the Company will be closed from 15 November 2024 to 20 November 2024 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend, speak and (subject to any applicable requirements referred to above) vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 14 November 2024.

2. A member of the Company entitled to attend, speak and (subject to any applicable requirement of the Listing Rules to abstain from voting on any relevant resolution) vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend, speak and (subject to any applicable requirements referred to above) vote instead of such member. A proxy need not be a member of the Company.

3. Completion and delivery of the form of proxy will not preclude a member of the Company from attending and voting at the meeting if the member so desires. In such event, the appointment of proxy will be deemed to be revoked.

4. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must be deposited with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 12:00 noon on 18 November 2024, or not less than 48 hours before the time appointed for holding of any adjourned meeting (as the case may be).

5. At the EGM, in compliance with Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the chairman of the meeting will exercise his power under article 76 of the articles of association of the Company to put the resolution set out in this notice of EGM to vote by way of poll.

6. If a tropical cyclone warning signal no. 8 or above, or "extreme conditions" caused by a super typhoon, or a black rainstorm warning signal is in force at any time between 8:30 a.m. and 12:00 noon on the day of the EGM, the EGM will be adjourned or postponed. The Company will post an announcement on the Company's website (www.towngassmartenergy.com) and HKEXnews website (www.hkexnews.hk) to notify members of the Company of the date, time and place of the adjourned or postponed meeting.

7. As at the date of this notice, the non-executive Directors are Dr. the Hon. Lee Ka-kit (Chairman) and Mr. Kenneth Liu Kai-lap, the executive Directors are Mr. Peter Wong Wai-yee (Chief Executive Officer), Mr. Martin Kee Wai-ngai (Chief Operating Officer – Gas Business) and Dr. John Qiu Jian-hang (Chief Operating Officer – Renewable Business), and the independent non-executive Directors are Dr. the Hon. Moses Cheng Mo-chi, Mr. Brian David Li Man-bun and Dr. Christine Loh Kung-wai.

8. To the extent that there are any inconsistencies between the English version and the Chinese version of this notice, the English version shall prevail.