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)

SUPPLEMENTAL ANNOUNCEMENT

CONNECTED TRANSACTIONS

(1) TRANSFER OF, AND DISPOSAL OF EQUITY INTERESTS AND ASSETS IN RELATION TO, EXTENDED BUSINESS IN THE PRC
(2) ACQUISITION OF EQUITY INTEREST IN HOLDING COMPANY OF THE PRC/HK EXTENDED BUSINESS OF THE HONG KONG AND CHINA GAS COMPANY LIMITED GROUP

Reference is made to the announcement of Towngas Smart Energy Company Limited (the "**Company**") dated 25 October 2024 in relation to certain connected transactions regarding, among others, the transfer of and disposal of equity interests and assets in relation to its extended business (the "**Announcement**"). Capitalised terms used in this announcement have the same meanings as defined in the Announcement unless the context requires otherwise.

The Company would like to provide below additional information about (1) the valuation of 40% equity interest in Towngas Lifestyle Chengdu, 49% equity interest in the Group A Companies and 49% equity interest in the Group B Companies (collectively, the "**Chengdu Determination**"); (2) the valuation of the Transferring EB of the Transferring Companies and TSEL Higher Valued Functions (collectively, the "**EB Determination**"); and (3) determination of the calculated value (being a determination of value based on specific valuation approaches and valuation methods agreed with the client and generally does not include all procedures of a valuation) of Towngas Lifestyle (the "**Towngas Lifestyle Determination**", together with the Chengdu Determination and the EB Determination are collectively referred to as the "**Determinations**" and each a "**Determination**" in this announcement), each as at 31 March 2024 and made by an independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Valuer**"). Each of Towngas Lifestyle Chengdu, Group A Companies, Group B Companies, the Transferring EB of the Transferring Companies, TSEL Higher Valued Functions and Towngas Lifestyle is referred to as a "**Target**" in this announcement.

APPROACHES AND METHODS CONSIDERED AND CHOSEN

In arriving at the value of a Target in respect of each Determination, the Valuer has considered three generally accepted approaches, namely the market approach, the cost approach and the income approach.

Basis of adopting the market approach

To select the most appropriate approach for the Determinations, the Valuer has considered their purposes and the resulting basis of value as well as the availability and reliability of information provided to form an analysis. In its opinion, the cost approach was inappropriate for valuing such Targets, as it did not directly incorporate information about the economic benefits contributed by the Targets. The income approach was inappropriate as such approach requires detailed operational information and accurate long-term financial projection of the Targets and it also requires many subjective assumptions and unobservable inputs. The Valuer has therefore relied on the market approach in determining their opinion of valuation of the Targets in respect of the Determinations.

Basis of adopting the guideline public companies method

There are two common methods under the market approach, namely, the guideline public companies method and the guideline transaction method. The Valuer has chosen the guideline public company method for each Determination. The guideline transaction method was not adopted due to lack of recent market transactions with similar nature as the Targets. The guideline public company method would require the research of comparable companies' benchmark multiples and selection of an appropriate multiple.

THE DETERMINATIONS

Selection of multiple

The Valuer has considered the following commonly used benchmark multiples when applying the guideline public company method:

(a) Price to earning ratio was not adopted as it would not capture the financial leverage and other related risk feature across the companies.

(b) Price to book ratio was not adopted as it is common for asset intensive industries which was not the case for the Targets.

(c) Price to sales ratio and enterprise value to sales ratio were not adopted as such multiples would ignore the cost structure of a company and hence the profitability of a company, which is critical in reflecting the market value.

(d) Enterprise value ("**EV**") / Earnings before interest, taxes depreciation and amortisation ("**EBITDA**") ratio was deemed by the Valuer to be the suitable multiple for the valuation or calculation in consideration of the business nature of the Targets as it is suitable for profitable companies and can factor in differences in balance sheet positions between the subject and the comparable companies. The EV/EBITDA ratio is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allowed the Valuer to compare the Targets against the comparable companies without considering how each comparable company would finance its operations.

In all the Determinations, the EV/EBITDA ratio was defined as the current enterprise value as at 31 March 2024 to the earnings before interest, tax, depreciation and amortisation of the Targets and comparable companies from 1 January 2023 to 31 December 2023.

Assumptions

In making the Determinations, the following key assumptions have been made by the Valuer:

1. There would be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Targets.

2. The operational and contractual terms stipulated in the relevant contracts and agreements would be honoured.

3. The facilities and systems proposed would be sufficient for future expansion in order to realise the growth potential of the business and maintain a competitive edge.

4. The financial and operational information provided to the Valuer was accurate.

5. There were no hidden or unexpected conditions associated with the Targets that might adversely affect the reported values.

6. Prudent management of the Targets would continue over whatever period of time that would be reasonable and necessary to maintain the character and integrity of the subject assets valued.

The following additional assumptions and bases have also been made or adopted by the Valuer in making the Towngas Lifestyle Determination:

7. Interest rates, tax rates, inflation, population, and industry policies would not undergo significant changes.

8. Towngas Lifestyle’s main operating assets could be effectively utilised and there would be no situations of idle or ineffective use.

9. No control premium was applied in calculating the value of Towngas Lifestyle since the shares of Towngas Lifestyle after its restructuring proposed to be paid as the transaction price (i.e. the First Consideration Shares and the Second Consideration Shares) have no controlling interests.

10. The calculation was based on financial figures assuming that the Transactions had been completed then.

Market multiple, adjustments and quantitative inputs

Under the guideline public company method, in determining the financial multiple for the Targets, a list of comparable companies was identified. The selection criteria included the followings:

1. such companies derived over 50% of their revenues from the same or closely related industry of the Targets, i.e. home appliances;

2. such companies were publicly listed on the Stock Exchange;

3. such companies had been actively traded for no less than six months as at 31 March 2024;

4. such companies mainly operated in the PRC or Hong Kong; and

5. such companies recorded positive trailing twelve-month EBITDA and NOPAT (net operating profit after tax).

While the PRC/HK Extended Business consists of smart kitchens, insurance, home safety services and community retail, they are managed as one business as a whole under a single management team, which have shared synergy in serving the same group of customers, centralised supply chain and marketing function. As no two companies are exactly identical, the Valuer had therefore selected comparable companies according to the segment with the highest revenue contribution, i.e. smart kitchen, which mostly consist of the sales of gas appliances. In view of the above, the selection criteria were considered by the Valuer to be suitable and feasible. Based on the selection criteria, the Valuer had identified eight selected comparable companies and the principal activities as extracted from their respective latest annual reports are shown in the following table:

Selected Comparable Company (Stock Code)	**Principal Business**
Raymond Industrial Limited (229)	Manufacture and sale of electrical home appliances
Alltronics Holdings Limited (833)	Manufacture and trading of electronic products, plastic moulds, plastic and other components for electronic products
Hisense Home Appliances Group Co., Ltd. (921)	Research and development, manufacturing and marketing of refrigerators, household air-conditioners, central air-conditioners, freezers, washing machines, kitchen appliances and other electrical products, as well as of moulds, automotive air conditioner compressors and integrated thermal management systems, and provides full scenario smart home solutions centered on intelligent upgrading of household appliances
JS Global Lifestyle Company Limited (1691)	Design, marketing, manufacture, export, import and distribution of a full range of floor-care products, hard surface steam cleaning products and small kitchen appliances
Town Ray Holdings Limited (1692)	Manufacture and sale of electrothermic household appliances
Vesync Co., Ltd (2148)	Sales of small domestic appliance
SMC Electric Limited (2381)	Manufacturing and sales of home appliances such as electric fans, work lights, vacuum cleaners, and other electric tools
Haier Smart Home Co., Ltd. (6690)	Sales of refrigeration appliances, kitchen appliances, air-conditioners, laundry appliances and water appliances, with value-added consumer services

As the businesses of the comparable companies were located in different regions, they were thus exposed to different economic and market risks. Moreover, the comparable companies were of significantly different size from the Targets. Larger companies generally have lower expected returns that translate into higher values. On the other hand, smaller companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the base multiples were adjusted to reflect the difference in natures between the comparable companies and the Targets.

The adjusted EV/EBITDA ratios were calculated using the following formula:

Adjusted EV/EBITDA ratio = $1 / ((1 / M) + \alpha * \varepsilon * \theta)$

Where:
M = The base EV/EBITDA ratio
α = The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies
ε = The ratio of the equity value to the enterprise value of the comparable company
θ = Required adjustment in the equity discount rate for difference in size and country risk

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the Targets. With reference to certain published market data, depending on the market capitalisation of each of the comparable companies, size premium differentials of ranging from 0% to 4.24% (in respect of the Chengdu Determination and the EB Determination) and from -2.71% to 1.53% (in respect of the Towngas Lifestyle Determination) were adopted to capture the size difference between the comparable companies and the Targets. The size premium differentials of the Chengdu Determination and the EB Determination are higher than the Towngas Lifestyle Determination due to the size of Towngas Lifestyle being relatively larger, which generally is perceived to have lower risks and so lower expected returns. With reference to certain research data on country default spreads and risk premiums, country risk differentials of ranging from 0% to 0.15% were adopted to capture the difference in country risk between the comparable companies and the Target.

The following table shows the details of the original and adjusted EV/EBITDA ratios for the Chengdu Determination and the EB Determination of each of the selected comparable companies:

Selected Comparable Company (Stock Code)	**M (Base EV/EBITDA ratio)**	**α (EBITDA to NOPAT ratio)**	**ε (Market capitalisation to EV ratio)**	**θ (Size and country risk premium differential)**	**Adjusted EV/EBITDA ratio**
Raymond Industrial Limited (229)	1.38	1.71	4.23	0.15%	1.36
Alltronics Holdings Limited (833)	0.44	1.71	2.59	0.15%	0.44
Hisense Home Appliances Group Co., Ltd. (921)	7.96	1.50	0.85	4.06%	5.64
JS Global Lifestyle Company Limited (1691)	2.28	2.16	1.46	3.71%	1.80
Town Ray Holdings Limited (1692)	5.24	1.45	1.17	0.15%	5.17
Vesync Co., Ltd. (2148)	7.50	1.23	1.10	3.56%	5.51
SMC Electric Limited (2381)	2.72	1.57	1.96	0.15%	2.69
Haier Smart Home Co., Ltd. (6690)	8.80	1.62	1.00	4.24%	5.49
				Median	3.93

The following table shows the details of the original and adjusted EV/EBITDA ratios for the Towngas Lifestyle Determination of each of the selected comparable companies:

Selected Comparable Company (Stock Code)	M (Base EV/EBITDA ratio)	A (EBITDA to NOPAT ratio)	ε (Market capitalisation to EV ratio)	θ (Size and country risk premium differential)	Adjusted EV/EBITDA ratio
Raymond Industrial Limited (229)	1.38	1.71	4.23	-2.56%	1.85
Alltronics Holdings Limited (833)	0.44	1.71	2.59	-2.56%	0.46
Hisense Home Appliances Group Co., Ltd. (921)	7.96	1.50	0.85	1.35%	7.00
JS Global Lifestyle Company Limited (1691)	2.28	2.16	1.46	1.00%	2.13
Town Ray Holdings Limited (1692)	5.24	1.45	1.17	-2.56%	6.79
Vesync Co., Ltd. (2148)	7.50	1.23	1.10	0.85%	6.91
SMC Electric Limited (2381)	2.72	1.57	1.96	-2.56%	3.47
Haier Smart Home Co., Ltd. (6690)	8.80	1.62	1.00	1.53%	7.23
				Median	5.13

Discount for lack of marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell it. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Since the Targets were not publicly traded, a discount for lack of marketability was applied. For the Determinations, the discount for lack of marketability adopted was 15.7%, with reference to certain published research data on DLOM.

Control premium (for the EB Determination only)

Control premium is applied to reflect differences between the comparables and the subject asset with regard to the ability to make operating and financial decisions. A control premium is defined as the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company. Parts of the Transferring EB transferred are from the Transferring Companies in which the Company has controlling interests, a control premium was adopted to calculate the market value of the controlling interests parts. Based on certain published research data on control premium, the control premium of 25.2% was adopted in the relevant parts of the EB Determination.

Calculations

The value for each Target was arrived at by applying the median of the adjusted EV/EBITDA ratio of the selected comparable companies referred to above to the EBITDA of such Target and adjusted for (where applicable) non-operating assets/liabilities, minority interests, control premium and DLOM as follows.

40% equity interest in Towngas Lifestyle Chengdu

EBITDA of Towngas Lifestyle Chengdu for the 12-month period ended 31 December 2023	RMB28,309,039
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB111,258,966**
Add: Cash and cash equivalents	RMB73,920,467
Less: Minority Interest	RMB(89,775,272)
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB95,404,161**
Less: DLOM of 15.70%	RMB(14,978,453)
Market value as at 31 March 2024 (non-marketable, non-controlling)	**RMB80,425,707**
* 40% (rounded to thousands)	**RMB32,170,000**

49% equity interest in the Group A Companies

EBITDA of the Group A Companies for the 12-month period ended 31 December 2023	RMB23,941,946
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB94,095,606**
Add: Cash and cash equivalents	RMB34,816,683
Less: Minority Interest	-
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB128,912,289**
Less: DLOM of 15.70%	RMB(20,239,229)
Market value as at 31 March 2024 (non-marketable, non-controlling)	**RMB108,673,059**
* 49% (rounded to thousands)	**RMB53,250,000**

49% equity interest in the Group B Companies

EBITDA of the Group B Companies for the 12-month period ended 31 December 2023	RMB9,000,686
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB35,374,110**
Add: Cash and cash equivalents	RMB18,928,443
Less: Minority Interest	-
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB54,302,552**
Less: DLOM of 15.70%	RMB(8,525,501)
Market value as at 31 March 2024 (non-marketable, non-controlling)	**RMB45,777,052**
* 49% (rounded to thousands)	**RMB22,432,000**

Transferring EB of the Transferring Companies

The appraised value of the Transferring EB of the Transferring Companies where the Company has controlling interest was arrived at as follows:

EBITDA of the Transferring EB of the Transferring Companies where the Company has controlling interest for the 12-month period ended 31 December 2023	RMB6,061,117
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB23,821,142**
Add: Cash and cash equivalents	-
Less: Minority Interest	-
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB23,821,142**
Add: Control premium of 25.20%	RMB6,002,928
Market Value as at 31 March 2024 (marketable, controlling)	**RMB29,824,070**
Less: DLOM of 15.70%	RMB(4,682,379)
Market value as at 31 March 2024 (non-marketable, controlling) (rounded to thousands)	**RMB25,142,000**

The appraised value of the Transferring EB of the Transferring Companies where the Company has non-controlling interest was arrived at as follows:

EBITDA of the Transferring EB of the Transferring Companies where the Company has non-controlling interest for the 12-month period ended 31 December 2023	RMB17,776,627
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB69,864,935**
Add: Cash and cash equivalents	-
Less: Minority Interest	-
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB69,864,935**
Less: DLOM of 15.70%	RMB(10,968,795)
Market value as at 31 March 2024 (non-marketable, non-controlling) (rounded to thousands)	**RMB58,896,000**

Therefore, the appraised value of the Transferring EB of the Transferring Companies in aggregate is RMB84,038,000.

TSEL Higher Valued Functions

The appraised value of the TSEL Higher Valued Functions where the Company has controlling interest was arrived at as follows:

EBITDA of the TSEL Higher Valued Functions where the Company has controlling interest for the 12-month period ended 31 December 2023	RMB21,869,533
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB85,950,698**
Add: Cash and cash equivalents	-
Less: Minority Interest	-
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB85,950,698**
Add: Control premium of 25.20%	RMB21,659,576
Market Value as at 31 March 2024 (marketable, controlling)	**RMB107,610,274**
Less: DLOM of 15.70%	RMB(16,894,813)
Market value as at 31 March 2024 (non-marketable, controlling) (rounded to thousands)	**RMB90,715,000**

The appraised value of the TSEL Higher Valued Functions where the Company has non-controlling interest was arrived at as follows:

EBITDA of the TSEL Higher Valued Functions where the Company has non-controlling interest for the 12-month period ended 31 December 2023	RMB10,169,134
Adjusted EV/EBITDA ratio	3.93
Enterprise Value as at 31 March 2024	**RMB39,966,292**
Add: Cash and cash equivalents	-
Less: Minority Interest	-
Less: Borrowing Debt	-
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB39,966,292**
Less: DLOM of 15.70%	RMB(6,274,708)
Market value as at 31 March 2024 (non-marketable, non-controlling) (rounded to thousands)	**RMB33,692,000**

Therefore, the appraised value of the TSEL Higher Valued Functions in aggregate is RMB124,407,000.

Towngas Lifestyle

EBITDA of the Towngas Lifestyle for the 12-month period ended 31 December 2023	RMB608,554,755
Adjusted EV/EBITDA ratio	5.13
Enterprise Value as at 31 March 2024	**RMB3,119,395,784**
Add: Cash and cash equivalents	RMB300,231,691
Less: Minority Interest	RMB(230,726,196)
Less: Borrowing Debt	RMB(291,436,821)
Market value as at 31 March 2024 (marketable, non-controlling)	**RMB2,897,464,458**
Less: DLOM of 15.70%	RMB(454,901,920)
Calculated value as at 31 March 2024 (non-marketable, non-controlling) (rounded to thousands)	**RMB2,442,563,000**

Note: the numbers of the calculations of the Determinations may not foot due to rounding.

DIRECTORS' VIEWS ON THE DETERMINATIONS

Based on the above, the Directors (including the independent non-executive Directors) consider that the basis for determining the consideration of the Transactions, the terms of the Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

By Order of the Board of Directors
Elsa Wong Lai-kin
Company Secretary

Hong Kong, 22 November 2024

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

Non-Executive Directors:
LEE Ka-kit *(Chairman)*
Kenneth LIU Kai-lap

Independent Non-Executive Directors:
Moses CHENG Mo-chi
Brian David LI Man-bun
Christine LOH Kung-wai

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