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## **THE HONG KONG AND CHINA GAS COMPANY LIMITED**

*(Incorporated in Hong Kong under the Companies Ordinance)*

(Stock Code: 3)

### **CONNECTED TRANSACTION**

#### **CAPITAL INCREASE IN JIANGXI FENG LONG JV**

The Board announces that a wholly-owned subsidiary of the Company, ECO, entered into the Capital Increase Agreement on 25th August 2008 with Fengcheng Mining Bureau and Longyan Hongfu, the two existing equity holders of Jiangxi Feng Long JV, pursuant to which the registered capital of Jiangxi Feng Long JV will be increased from RMB86,734,700 to RMB236,111,600. Such increase of RMB149,376,900 will be contributed as to RMB50,209,900 by Fengcheng Mining Bureau, RMB40,139,100 by Longyan Hongfu and RMB59,027,900 by ECO. The Capital Increase will be made by two or more instalments. Immediately after the payment of the First Instalment, the registered capital of Jiangxi Feng Long JV will be held as to 40% by Fengcheng Mining Bureau, 35% by Longyan Hongfu and 25% by ECO, which will continue to be held in such proportions after the Capital Increase. In addition to a capital contribution of RMB59,027,900, ECO will also pay an equity subscription premium of RMB63,888,400 to Jiangxi Feng Long JV which will be allocated to its capital reserve.

In addition, Fengcheng Mining Bureau, Longyan Hongfu and ECO entered into the Joint Venture Agreement on 25th August 2008 to govern their relationship in Jiangxi Feng Long JV.

The Capital Increase Agreement and the Joint Venture Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules as Fengcheng Mining Bureau is a connected person by reason of it being a substantial shareholder of an existing subsidiary of the Company. Furthermore, by virtue of Rule 14A.13(1)(b)(i), the acquisition of an interest by ECO in Jiangxi Feng Long JV also constitutes a connected transaction since a substantial shareholder of Jiangxi Feng Long JV (Fengcheng Mining Bureau) is a controller of a subsidiary of the Company. Given that the relevant applicable percentage ratios set out in the Listing Rules for the transactions contemplated under the Capital Increase Agreement and the Joint Venture Agreement are less than 2.5% but more than 0.1%, the Capital Increase Agreement and the Joint Venture Agreement are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

#### **Background**

The Board announces that a wholly-owned subsidiary of the Company, ECO, entered into the Capital Increase Agreement on 25th August 2008 with Fengcheng Mining Bureau and Longyan Hongfu, the two existing equity holders of Jiangxi Feng Long JV, pursuant to which the registered capital of Jiangxi Feng Long JV will be increased from RMB86,734,700 to RMB236,111,600. Such increase of RMB149,376,900 will be contributed as to RMB50,209,900 by Fengcheng Mining Bureau, RMB40,139,100 by Longyan Hongfu and RMB59,027,900 by ECO. Currently, the registered capital of Jiangxi Feng Long JV is held as to 51% by Fengcheng Mining Bureau and 49% by Longyan Hongfu. The Capital Increase will be made by two or more instalments. Immediately after the payment of the First Instalment, the registered capital of Jiangxi Feng Long JV will be held as to 40%

by Fengcheng Mining Bureau, 35% by Longyan Hongfu and 25% by ECO, which will continue to be held in such proportions after the Capital Increase. In addition to a capital contribution of RMB59,027,900, ECO will also pay an equity subscription premium of RMB63,888,400 to Jiangxi Feng Long JV which will be allocated to its capital reserve.

In addition, Fengcheng Mining Bureau, Longyan Hongfu and ECO entered into the Joint Venture Agreement on 25th August 2008 to govern their relationship in Jiangxi Feng Long JV.

## **THE CAPITAL INCREASE AGREEMENT**

### **Date**

25th August 2008

### **Parties**

- (a) Fengcheng Mining Bureau
- (b) Longyan Hongfu
- (c) ECO

### **(a) THE FIRST INSTALMENT**

Pursuant to the Capital Increase Agreement, the paid-up capital of Jiangxi Feng Long JV will be increased from RMB86,734,700 to RMB121,428,600 after the payment of the First Instalment, which will be payable by Fengcheng Mining Bureau and ECO. Immediately after the First Instalment, the paid-up capital of Jiangxi Feng Long JV will be RMB121,428,600 and held as to 40% by Fengcheng Mining Bureau, 35% by Longyan Hongfu and 25% by ECO.

### **Conditions of the payment of the First Instalment**

The payment of the First Instalment is conditional upon the following:

- (i) the relevant requisite application materials including PRC government approval documents and reports in relation to Jiangxi Feng Long JV's application for the mining permit of the Shishang Coal Mine (石上礦井採礦許可証) having been obtained;
- (ii) the approval document from the authorised investor of Fengcheng Mining Bureau in respect of the Capital Increase and conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture in accordance with the Joint Venture Agreement having been obtained;
- (iii) the relevant PRC government approval document in respect of the acquisition of equity interest in Jiangxi Feng Long JV by a foreign entity having been obtained;
- (iv) the relevant PRC government approval document in respect of the Capital Increase, the Joint Venture Agreement, the articles of association of Jiangxi Feng Long JV and the approval certificate for the conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture having been obtained;
- (v) the business licence of Jiangxi Feng Long JV after its conversion into a sino-foreign equity joint venture having been obtained;

- (vi) the stock taking of the total net assets of Jiangxi Feng Long JV (in accordance with the terms of the Capital Increase Agreement) having been completed and confirmed in writing by Fengcheng Mining Bureau, Longyan Hongfu and ECO;
- (vii) the financial statements up to the date of conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture having been audited by an auditor jointly appointed by Fengcheng Mining Bureau, Longyan Hongfu and ECO and having been confirmed in writing by all three parties;
- (viii) there being no outstanding debts or tax liabilities up to the expiry of the notice period for the publication of the capital increase announcement;
- (ix) written consent from the relevant bank in respect of the change in equity holders having been obtained by Jiangxi Feng Long JV; and
- (x) the relevant state-owned land allocation decision document and land use approval document in respect of the lands which it currently uses having been obtained by Jiangxi Feng Long JV.

If the conditions are not satisfied within 3 months (or such later date as may be agreed by the parties) from the date of conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture, ECO may immediately terminate the Capital Increase Agreement by giving written notice to Fengcheng Mining Bureau and Longyan Hongfu.

### **Premium**

At the same time as making payment of the First Instalment, ECO will pay an equity subscription premium of RMB63,888,400 to Jiangxi Feng Long JV which will be allocated to its capital reserve.

The Premium was arrived at after arm's length negotiations between Fengcheng Mining Bureau, Longyan Hongfu and ECO, taking into account the valuation of the 25% stake in Jiangxi Feng Long JV (valued as at 31 December 2007) of approximately RMB32,968,900 (equivalent to approximately HK\$37,656,364) based on the asset appraisal report dated 14 March 2008 prepared by an independent professional valuer using the market approach, subject to an adjustment by reference to the net asset value of Jiangxi Feng Long JV upon its conversion into a sino-foreign equity joint venture on a dollar-for-dollar basis. Based on its due diligence on Jiangxi Feng Long JV and the Shishang Coal Mine (including a review of its feasibility study report), the Directors consider that the Premium is fair and reasonable as it expects Jiangxi Feng Long JV to have good prospects and its business will be complementary to the Company's existing businesses. The net asset value of Jiangxi Feng Long JV is RMB86,734,700 (equivalent to approximately HK\$99,066,498) and is based primarily on a valuation of its current major assets including fixed assets (equipment and buildings), current assets and construction work in progress.

The Premium will be payable by ECO in cash and will be funded by internal cash resources of the Group.

### **Completion**

Within 20 working days after the fulfilment of all the conditions of the First Instalment, Fengcheng Mining Bureau and ECO will make capital contributions of RMB4,336,700 and RMB30,357,200 to Jiangxi Feng Long JV, respectively. It is currently intended that the amount of RMB30,357,200 to be contributed by ECO pursuant to the First Instalment will be funded by internal cash resources of the Group. In addition, ECO shall at the same time pay the Premium to Jiangxi Feng Long JV.

Immediately after the First Instalment, the paid-up capital of Jiangxi Feng Long JV will be RMB121,428,600 and held as to 40% by Fengcheng Mining Bureau, 35% by Longyan Hongfu and 25% by ECO.

#### **(b) CAPITAL BALANCE**

After Completion and the issue of a sino-foreign equity joint venture business licence to Jiangxi Feng Long JV, Jiangxi Feng Long JV will be converted into a sino-foreign equity joint venture in the PRC. It is expected that the necessary documents for approval of conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture will be submitted to the relevant governmental authorities shortly after the execution of the Capital Increase Agreement. In the normal course of events, it is expected that such approval will be granted within three months of such submission.

Pursuant to the Capital Increase Agreement, the parties have agreed to pay the Capital Balance within two years from the date of conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture. In other words, the paid-up capital of Jiangxi Feng Long JV will be further increased from RMB121,428,600 (immediately after the First Instalment) to RMB236,111,600. Such increase of RMB114,683,000 will be contributed as to RMB45,873,200 by Fengcheng Mining Bureau, RMB40,139,100 by Longyan Hongfu and RMB28,670,700 by ECO by instalment(s) in accordance with the terms of the Joint Venture Agreement and the articles of association of Jiangxi Feng Long JV. It is currently intended that the amount of RMB28,670,700 to be contributed by ECO (being the portion of the Capital Balance attributable to ECO) will be funded by internal cash resources of the Group.

Immediately after paying the Capital Balance, the paid-up capital of Jiangxi Feng Long JV will continue to be held as to 40% by Fengcheng Mining Bureau, 35% by Longyan Hongfu and 25% by ECO.

#### **Termination**

Either party may terminate the Capital Increase Agreement under certain defaulting circumstances as prescribed in the Capital Increase Agreement. The non-defaulting party may be compensated or claim for damages (including but not limited to the capital contribution and Premium paid by ECO) in accordance with the relevant terms of the Capital Increase Agreement.

Furthermore, if the mining permit of the Shishang Coal Mine (石上礦井採礦許可証) has not been obtained by Jiangxi Feng Long JV within two years from the date of conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture, Fengcheng Mining Bureau and Longyan Hongfu shall refund the Premium to ECO (but this will not affect ECO's equity interest in Jiangxi Feng Long JV). ECO will continue to be liable to pay its share of the Capital Balance to Jiangxi Feng Long JV in accordance with the Capital Increase Agreement.

In the unlikely event that the mining permit of the Shishang Coal Mine cannot be obtained, Jiangxi Feng Long JV will look into other business opportunities in line with its scope of business for investment.

#### **THE JOINT VENTURE AGREEMENT**

##### **Date**

25th August 2008

**Parties**

- (a) Fengcheng Mining Bureau
- (b) Longyan Hongfu
- (c) ECO

**Scope of business**

The scope of business of Jiangxi Feng Long JV shall be the exploitation and processing of coal, the operation of coal business and the collection of gas in coal layers.

**Profit distribution**

The profits of Jiangxi Feng Long JV available for distribution shall be distributed to Fengcheng Mining Bureau, Longyan Hongfu and ECO in proportion to their respective share of actual contribution to the registered capital.

**Board composition**

The board of directors of Jiangxi Feng Long JV will consist of 9 directors, of whom 4 will be appointed by Fengcheng Mining Bureau, 3 will be appointed by Longyan Hongfu and 2 will be appointed by ECO. Such appointments will become effective on the date of conversion of Jiangxi Feng Long JV into a sino-foreign equity joint venture.

**INFORMATION ON THE GROUP**

The principal activities of the Group are the production, distribution and marketing of gas, water and related activities in Hong Kong and the PRC.

**INFORMATION ON FENGCHENG MINING BUREAU, LONGYAN HONGFU AND JIANGXI FENG LONG JV**

Fengcheng Mining Bureau, established in 1957, is a major coke coal production base in Southern Yangtze River Area and a key enterprise of Jiangxi Province, the PRC. It is a state-owned large-to-medium size enterprise with a coal production capacity of 2.8 million tons per year.

Longyan Hongfu is a wholly-owned subsidiary of Longyan City Huanmin Investment Company Limited. Longyan City Huanmin Investment Company Limited was established in November 2004 and is principally engaged in the investment in the exploration and mining of coal and various metal mining products. Its main production bases are in three locations being Xinluo District, Yongding County and Zhangping County of Longyan City, Jiangxi Province, the PRC, and it has a controlling interest in 20 coal mines. The total designed annual capacity of the mines is 1.89 million tons. The principal business activities of Longyan Hongfu include project investment, capital operation (excluding that in the financial industry) and management of shopping malls.

As at the date of this announcement, Jiangxi Feng Long JV has not commenced commercial production and therefore does not have any profit or loss for the two years ended 31 December 2006 and 2007. Although commercial production has not commenced, preliminary work including the drilling of wells is being carried out on the site of the Shishang Coal Mine in preparation for pumping after the mining permit of the Shishang Coal Mine (石上礦井採礦許可証) has been obtained. The

expenses for such preliminary work have been capitalised into the books of Jiangxi Feng Long JV. In addition, Jiangxi Feng Long JV will be equity accounted for in the Company's accounts.

Fengcheng Mining Bureau did not acquire Jiangxi Feng Long JV from a third party. It was one of the first equity holders of Jiangxi Feng Long JV and the amount of registered capital which has so far been contributed by Fengcheng Mining Bureau is RMB44,234,700. The Company is not aware of Longyan Hongfu's original acquisition cost of its interest in Jiangxi Feng Long JV. The amount of registered capital which has so far been contributed by Longyan Hongfu is RMB42,500,000.

## **REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE**

The Group currently engages in a large number of activities in the PRC and Hong Kong. In the PRC, in addition to its piped city-gas projects, the Group is also endeavouring to develop emerging energy projects including projects involving coal-based energy. The Group aims to participate in upstream, midstream and downstream energy projects and as such, the Company believes that an equity interest in Jiangxi Feng Long JV (an upstream energy project) will be complementary to the Company's existing businesses and will further enhance the Group's natural resources businesses and operations in the PRC.

Shishang Coal Mine is located within the territory of Shangzhuangxiang, Fengcheng City, Jiangxi Province, the PRC. The main coal mine in the mining zone is approximately 6 kilometres away from the northwest of Fengcheng City and the exploration area of the zone amounts to approximately 60 square kilometres. The coal reserve of Shishang Coal Mine and the land occupied by it are the properties of the PRC government but the exploration right belongs to Jiangxi Feng Long JV. The coal reserve of Shishang Coal Mine is approximately 87,630,000 tons of which 58,210,000 tons can be exploited.

The amount of the Capital Increase has been negotiated by the parties on an arm's length basis taking into account the capital requirements for the exploration and mining of the Shishang Coal Mine based on a feasibility study report. The Capital Increase will be used to fund the expansion in the scale of operations of Jiangxi Feng Long JV in view of the shortage of coal supply in Jiangxi Province, the PRC.

The Directors (including the independent non-executive Directors) are of the view that the terms of the transactions contemplated under the Capital Increase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

The Capital Increase Agreement and the Joint Venture Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules as Fengcheng Mining Bureau is a connected person by reason of it being a substantial shareholder of an existing subsidiary of the Company. Furthermore, by virtue of Rule 14A.13(1)(b)(i), the acquisition of an interest by ECO in Jiangxi Feng Long JV also constitutes a connected transaction since a substantial shareholder of Jiangxi Feng Long JV (Fengcheng Mining Bureau) is a controller of a subsidiary of the Company. Given that the relevant applicable percentage ratios set out in the Listing Rules for the transactions contemplated under the Capital Increase Agreement and the Joint Venture Agreement are less than 2.5% but more than 0.1%, the Capital Increase Agreement and the Joint Venture Agreement are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

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

“Board”	the board of Directors
“Capital Balance”	the balance of the Capital Increase after the First Instalment (i.e. RMB114,683,000), to be contributed as to RMB45,873,200 by Fengcheng Mining Bureau, RMB40,139,100 by Longyan Hongfu and RMB28,670,700 by ECO
“Capital Increase”	the increase in registered capital of Jiangxi Feng Long JV from RMB86,734,700 to RMB236,111,600 pursuant to the Capital Increase Agreement, comprising the First Instalment and the Capital Balance
“Capital Increase Agreement”	the capital increase agreement entered into among Fengcheng Mining Bureau, Longyan Hongfu and ECO on 25th August 2008
“Company”	The Hong Kong and China Gas Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the payment of the First Instalment (including the Premium)
“connected person”	has the meaning given to it under the Listing Rules
“controller”	has the meaning given to it under the Listing Rules
“Directors”	the directors of the Company
“ECO”	ECO Coal Resources Development (Fengcheng) Limited (易高煤礦資源開發(豐城)有限公司), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Fengcheng Mining Bureau”	豐城礦務局 (Fengcheng Mining Bureau), a state-owned enterprise established in the PRC

“First Instalment”	the first instalment of the Capital Increase (amounting to RMB34,693,900), to be contributed as to RMB4,336,700 by Fengcheng Mining Bureau and RMB30,357,200 by ECO
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Jiangxi Feng Long JV”	Jiangxi Feng Long Mining Co., Ltd. (江西豐龍礦業有限責任公司), a joint venture entity established in the PRC which is owned by Fengcheng Mining Bureau and Longyan Hongfu and upon Completion, will be owned by Fengcheng Mining Bureau, Longyan Hongfu and ECO
“Joint Venture Agreement”	the joint venture agreement entered into among Fengcheng Mining Bureau, Longyan Hongfu and ECO on 25th August 2008 to govern their relationship in Jiangxi Feng Long JV
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longyan Hongfu”	龍岩市宏福投資有限公司 (Longyan City Hongfu Investment Company Limited), a company incorporated in the PRC
“PRC”	the People’s Republic of China, which for the purposes of this announcement excludes Hong Kong, Macau and Taiwan
“Premium”	an equity subscription premium of RMB63,888,400 for subscribing 25% of the registered capital of (a 25% equity interest in) Jiangxi Feng Long JV, payable by ECO pursuant to the Capital Increase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



“substantial shareholder” has the meaning given to it under the Listing Rules

*This announcement contains translation of HK\$ into RMB at the rate of HK\$1.00 to RMB0.87552. The translation shall not be taken as representation that any amounts in RMB or HK\$ could be converted at such rate or at any other rate.*

By Order of the Board

**RONALD T.H. CHAN**

*Executive Director and Company Secretary*

Hong Kong, 25th August 2008

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

*Non-executive Directors:* Dr. The Hon. Lee Shau Kee (Chairman), Mr. Colin Lam Ko Yin, Mr. Lee Ka Kit and Mr. Lee Ka Shing

*Independent Non-executive Directors:* Mr. Liu Lit Man, Mr. Leung Hay Man and Dr. The Hon. David Li Kwok Po

*Executive Directors:* Mr. Ronald Chan Tat Hung, Mr. Alfred Chan Wing Kin and Mr. James Kwan Yuk Choi

