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## CHINA LNG GROUP LIMITED

中國天然氣集團有限公司\*

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 931)**

### SUPPLEMENTAL ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION INVESTMENT COOPERATION AGREEMENT FOR SHAANXI DISTRIBUTED CENTRAL HEATING PROJECT AND THE ODM COOPERATION AGREEMENT

Reference is made to the announcement of China LNG Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 16 October 2023, in relation to the investment cooperation agreement for Shaanxi distributed central heating project (the “**Announcement**”). Capitalized terms used in this announcement shall bear the same meanings as defined in the Announcement unless otherwise stated.

The Company would like to provide the following additional information in relation to the Investment Cooperation Agreement.

#### **The Parties of the Agreement**

According to the Announcement, Shaanxi JB will transfer the entire equity interests held in the Project Company, as to 70% to Gang Neng Investment and 30% to the Partnership Enterprise at a nominal consideration of RMB1 respectively.

The Partnership Enterprise is a limited partnership established in the PRC with its shareholders of Guo Yang 55.9%, Yang Aimin 30%, Liu Hanquan 7%, Huang Yi 3.5%, Cao Wei 3.5% and Xian Runze Shengjing Technology Company Limited\* 0.10% (which is ultimate owned by Guo Yang and Yang Aimin).

Shaanxi JB is a company established in the PRC with limited liability with four individual shareholders namely Zhang Wangping 40%, Yang Feixia (legal representative and executive director and general manager) 30%, Wang Shengqian 15% and Liu Jingpei 15%.

Based on the information currently available and having made all reasonable enquiries, the Company confirms that each of the aforementioned shareholders is the ultimate beneficiary owner and independent of each other.

### **Basis of Capital Investment to the Project Company**

Pursuant to the Investment Cooperation Agreement, Gang Neng Investment will own 70% equity interest of the registered share capital of the Project Company, while the Partnership Enterprise will own 30% equity interest. After completion of the transfer, the share capital of Project Company will increase to RMB100 million and Gang Neng Investment will provide the entire capital amount and the Partnership Enterprise is not obligated to repay the capital investment to Gang Neng Investment.

The total capital investment to the Project Company amounting to RMB100 million (equivalent to HK\$109 million) was determined on the basis that the cost of residential heating renovation unit is about RMB40 per square meter and it is targeting to renovate 2 million square meters for the current financial year (FY2024), requiring a working capital of RMB80 million; furthermore, it needs to prepay the gas companies for the natural gas needed to produce the heat and other working capital requirements, totaling approximately RMB20 million. In this regard, the Directors of the Company assesses that the investment amount is fair and reasonable.

The 30% equity interest of the Partnership Enterprise was determined on arm's length commercial negotiation between the Company and the Partnership Enterprise, having taken into account of, among other things, (i) The Partnership Enterprise has extensive business and marketing experience in Xian City, which it also possesses all the necessary operational licenses; (ii) the Company has to give financial assistance to the Project Company so as to provide the funds needed for the business development in this winter and to form a solid asset loan ratio base for the Project Company to obtain future bank financing facilities; (iii) to protect the Company's 30% costs of funds lay out for the Partnership Enterprise, we thus inserted certain performance targets in the Project Company, which the Partnership Enterprise would be penalized on its dividend rights if it cannot contribute to meeting the performance targets set for the Project Company.

The Board considers that the acquisition represents an excellent opportunity for the Company to tap into the distributed central heating industry, which will enhance the profitability of the Group. Accordingly, the Board considers that the 30% equity interest of the Partnership Enterprise is reached on normal commercial terms that are fair and reasonable and in the best interest of the Company and its Shareholders as a whole.

### **Financial Information of the Project Company**

The Project Company was established in January 2022 and commenced operations in early 2023, it has no financial information for the year ended 31 December 2022. The unaudited net liabilities of the Project Company was RMB2.09 million as at 31 August 2023; the unaudited loss before and after tax for the period from 1 January to 31 August 2023 was RMB1.095 million.

Pursuant to the Investment Cooperation Agreement, the Group is protected from any potential financial liabilities or legal risks, as the Project Company has to be free of any associated financial liabilities and legal risks when transferring to the new shareholders.

## **Dividend Rights**

Pursuant to the Investment Cooperation Agreement, if the Project Company achieves the agreed performance targets, the Partnership Enterprise has the right to increase its shareholding through purchasing such shares from Gang Neng Investment in cash at costs. On the other hand, the Partnership Enterprise would be penalized by forfeiting its entitlement to dividends and assigning such right to Gang Neng Investment if the Project Company fails the performance targets.

If the Project Company achieves the performance target in the first financial year (FY2024), the Partnership Enterprise would be entitled to 30% dividend rights. If the performance target is achieved in the second financial year (FY2025), the Partnership Enterprise would be entitled to 30% dividend rights; at the same time, depending on whether the 10% option is exercised, dividends to the Partnership Enterprise would be distributed base on its shareholding. The same rule applies in the third financial year (FY2026).

If the Project Company fails to meet the performance target in the first financial year (FY2024), the dividend rights of the Partnership Enterprise would be reduced by 10%, resulting in a decrease from 30% to 20% in its entitlement. If the performance target is again not achieved in the second financial year (FY2025), the dividend rights of the Partnership Enterprise would be further reduced by another 10%, resulting in a decrease from 30% to 10%. If the performance target is once again not achieved in the third financial year (FY2026), the dividend rights of the Partnership Enterprise would be further reduced by another 10%, resulting in a decrease from 30% to 0%. However, if the Performance target is not achieved in the first financial year (FY2024) but reaches the cumulative two-financial-year targets in the second financial year (FY2025), the dividend rights of the Partnership Enterprise in the second financial year (FY2025) would be restored back to 30%, and so on to calculate the cumulative Performance targets.

## **Performance Undertaking**

The Partnership Enterprise has undertaken to ensure the operational performance of the Project Company shall not be less than the performance targets for each of the performance period ending 31 March 2024 (FY2024), 2025 (FY2025) and 2026 (FY2026). If the Project Company achieves the performance targets, the Partnership Enterprise will have the right to exercise its option to acquire not exceeding a cumulative of 19% equity interest in Project Company from Gang Neng Investment at a price based on the paid-in capital of the Project Company (the “**Earnest Money**”).

The exercise of the option is based on the achievement of performance targets under the Investment Cooperation Agreement, pursuant to Rule 14.74 of the Listing Rules, given the exercise of the option is not at the discretion of the Company, the transaction contemplated under the Investment Cooperation Agreement shall be classified as if the option had been exercised, the Earnest Money shall be regarded as the premium in relation to the grant of option. As each applicable percentage ratio(s) of the transaction under the grant of option are less than 5%, such transaction does not constitutes a discloseable transaction of the Company under Rule 14.07 of the Listing Rules.

Saved as disclosed above, all other information as set out in the Announcement remains unchanged and shall continue to be valid for all purposes.

## **The ODM Cooperation Agreement**

To support the business development of the Project Company, the Group has entered into a long-term cooperation agreement with the key supplier of equipment and raw material to provide flexibility in meeting the equipment and service requirements for the distributed central heating projects.

Reference is made to the announcement of the Company dated 20 October 2023 in relation to the original design manufacturer cooperation agreement with Qiweite Solar Energy Group (the “**ODM Agreement**”). According to the agreement, Qiweite Solar Energy Group will serve as the manufacturer and supply required equipment, parts and raw materials for the distributed central heating project of the Group through Gang Neng Investment for a period of five years with a minimum purchase amount of RMB100 million per annum. The ODM Agreement does not commit to the purchase requirement which is subject to conditions in the annual supply agreements. The Company will make a further announcement(s) on the annual supply agreement(s) as and when appropriate in accordance with the applicable disclosure requirements of Chapter 14 and Chapter 14A of the Listing Rules.

By Order of the Board  
**China LNG Group Limited**  
**Kan Che Kin, Billy Albert**  
*Chairman*

Hong Kong, 14 November 2023

*As at the date of this announcement, the Board comprises three executive Directors, namely Dr. Kan Che Kin, Billy Albert (Chairman), Mr. Deng Yaobo (chief executive officer) and Mr. Li Kai Yien, Arthur Albert; and three non-executive Directors, namely Dr. Lam, Lee G., Mr. Simon Murray and Mr. Xiao Cong; and three independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Chow Ching Ning and Mr. Lam Lum Lee.*

\* *For identification purpose only*