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China Tian Lun Gas Holdings Limited

中國天倫燃氣控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 01600)

DISCLOSEABLE TRANSACTION ACQUISITION OF 100% ISSUED SHARE CAPITAL OF A GAS HOLDING COMPANY IN HONG KONG

The Board announces that the Purchaser (an indirect wholly-owned subsidiary of the Company) entered into the Acquisition Agreement with the Vendor and the Guarantors on 25 December 2013, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Sale Shares and all rights attached thereto, representing the entire issued share capital of the Target Company, which, in turn, holds 60% equity interests in JV Company, at the total consideration of the HK\$ equivalent of RMB432,000,000 (subject to downward adjustment, if applicable).

As the applicable percentage ratios in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Board announces that the Purchaser (an indirect wholly-owned subsidiary of the Company) entered into the Acquisition Agreement with the Vendor and the Guarantors on 25 December 2013, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Sale Shares and all rights attached thereto, at the total consideration of the HK\$ equivalent of RMB432,000,000 (subject to downward adjustment, if applicable). The principal terms of the Acquisition Agreement are set out below:

The Acquisition Agreement

Date: 25 December 2013

Parties: Tian Lun New Energy Limited (as Purchaser);

Mr. Chen (as Vendor)

Mr. Huang, New Huahai and the Aquaculture Farm (as Guarantors)

The Vendor is the legal and beneficial owner of Sale Shares which represent the entire issued share capital of the Target Company. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendor, the Guarantors and their respective ultimate beneficial owner(s) are Independent Third Parties.

Assets to be Acquired

The Sale Shares represent the entire issued share capital of the Target Company, which holds 60% equity interests in the JV Company.

Consideration

The total consideration under the Acquisition Agreement is the HK\$ equivalent of RMB432,000,000 (subject to downward adjustment, if applicable), which shall be satisfied by the Purchaser in the following manners:

1. within five (5) business days upon the signing of the Acquisition Agreement, HK\$44,000,000 shall be payable by the Purchaser to the Vendor as earnest money. The earnest money shall be transferred by the Purchaser directly to the bank account of the Target Company, for the pay-off of capital contribution by the Target Company to JV Company.
2. within two (2) business days upon the satisfaction of the conditions precedent to the Completion, the Purchaser and the Vendor shall set up a joint escrow account in the name of the Vendor with a bank in Hong Kong designated by the Purchaser. Within three (3) business days upon the set up of the joint escrow account, the Purchaser shall transfer the HK\$ equivalent of RMB216,000,000 less HK\$44,000,000 of earnest money paid (subject to the section of "Conditions Precedent to the Completion" below) to the joint escrow account. After the date of Completion, the joint control of such amount will be released within five (5) business days upon the confirmation by the Purchaser of the satisfaction of conditions (1) to (4) as set out below:
 - (1) the official documents proving the transfer of the entire issued share capital in the Target Company from the Vendor to the Purchaser have been obtained by the Purchaser;
 - (2) the entire management rights in relation to the Target Company and JV Company is handed over by the Vendor to the Purchaser;
 - (3) the Purchaser and the Vendor together complete the financial check in respect of the Target Company and JV Company in accordance with the Acquisition Agreement and reduce (if appropriate) the payment amount of the consideration based on the results of financial check; in addition, the amount shall also be reduced by the transaction stamp duty paid by the Purchaser on behalf of the Vendor as well as the unsettled liabilities of the Target Company and JV Company as at the time of this payment which are agreed to be borne by the Vendor; and
 - (4) the Vendor and the Guarantors shall be responsible for procuring the entering into of the Gas Supply Agreements.
3. after settling the payment as mentioned in paragraphs 1 and 2 above, the HK\$ equivalent of RMB108,000,000 shall be paid in cash within 15 business days upon the confirmation by the Purchaser of the satisfaction of conditions (1) to (4) as set out below:
 - (1) the Vendor and the Guarantors shall be responsible for the construction of Phase I and shall ensure the commencement of operation of Phase I by the end of April 2014, in particular, that outbound pipelines are connected to external network with the capability of supplying gas to the surrounding users;
 - (2) as confirmed by the Purchaser, JV Company has a gas sales volume of 200,000 m³ per day and maintains continuous and steady supply, and has continuously supplied gas for more than 30 days;
 - (3) JV Company has obtained a gas business license issued by the competent gas authority of Chaozhou City, the PRC, the scope of which includes the operating authority of storage and sale of natural gas; and
 - (4) the Vendor and the Guarantors shall replace other parties who supply gas in the areas where JV Company operates to JV Company within one (1) month after Phase I is in operation.
4. when the Purchaser confirms that JV Company has a gas sales volume of 400,000 m³ per day and is capable of supplying gas continuously, the HK\$ equivalent of RMB54,000,000 shall be paid in cash within 10 business days from the day after 30 days of continuous supply.

5. when the Purchaser confirms that JV Company has a gas sales volume of 600,000 m³ per day and is capable of supplying gas continuously, the HK\$ equivalent of RMB54,000,000 shall be paid in cash within 10 business days from the day after 30 days of continuous supply.

The exchange rate of HK\$ against RMB for the consideration payable under the Acquisition Agreement is determined the average of the closing spot buying rate and the closing spot selling rate as announced by the People's Bank of China on a day preceding each payment.

The consideration under the Acquisition Agreement is determined by the parties at arm's length negotiation, with reference to the net assets (the value of debts (if any) of the Sale Shares and the Target Group as at the date of the Acquisition Agreement has been taken into account) of Target Company and JV Company as at 31 December 2012, expected gas consumption of existing users in ceramics industry in the areas where JV Company operates, and the potential customers growth and the future profitability of JV Company.

Adjustment of Consideration

Both the Purchaser and the Vendor agreed to jointly engage an auditor recognized by the Purchaser on the date of Completion to audit the financial statements of the Target Company and JV Company as at the Completion in accordance with Hong Kong Accounting Standards and PRC accounting standards, respectively, and to complete financial check thereof. Where the audited value of assets or receivables of the Target Company and JV Company based on the audit results is lower than that as specified in the Acquisition Agreement, the consideration will be reduced by the shortfall; where the audited value of assets or receivables of the Target Company and JV Company based on the audit results is higher than that as specified in the Acquisition Agreement, the consideration will not be adjusted upwards.

Conditions Precedent to the Completion

Completion of the Acquisition shall be condition upon, among other things, the completion of the following conditions precedents within 10 business days from the signing of the Acquisition Agreement (or within an extended time period as agreed by the Purchaser and the Vendor in writing):

1. The Vendor and the Guarantors confirm that the statements, representations, warranties and undertakings made remain true and accurate in all respects between the date of the Acquisition Agreement and the date of the Completion;
2. The Purchaser has received the Financial Statements supplied by the Vendor, and the financial conditions of the Target Company and JV Company as reflected in the Financial Statements are reasonable;
3. No judicial or governmental authorities institute any litigation, investigations or other proceedings against the Target Company, JV Company or the Guarantors to seek to restrict, prevent or alter the transactions under the Acquisition Agreement, or to challenge the validity or the legality thereof, or to claim any substantial damages associated with the transaction;
4. The Vendor and/or the Guarantors shall have settled all the debts of the Target Company and JV Company as of the date of the Acquisition Agreement, or a written agreement in which the Vendor and the Guarantors agree to take up the responsibilities in settling the debts has been reached, or the Vendor and the Guarantors have reached a plan to settle all the debts of the Target Company and JV Company before the date of Completion; and the Vendor and the Guarantors guarantee that the new debts incurred by the Target Company and JV Company during the period from the date of the Acquisition Agreement to the date when the entire management rights in relation to the Target Company and JV Company is handed over to the Purchaser, and any contingent debts attributable to the period prior to the date of completion of taking over management, shall be assumed by the Vendor and the Guarantors;
5. The approval of the Acquisition by the Board and shareholders of the Company (if required) in accordance with the Listing Rules.

As at the date of this announcement, the condition under item 5 above has been fulfilled.

If any of the above conditions precedent is not satisfied or completed or otherwise waived by the Purchaser within 30 days from the date of the Acquisition Agreement (or within an extended time as agreed by the Purchaser and the Vendor in writing), the Purchaser and the Vendor shall negotiate to determine whether to proceed with the Acquisition upon the expiry of the said time limit. If the parties fail to reach an agreement, the Purchaser may elect to terminate the Acquisition Agreement by giving a 7-day notice to the Vendor without incurring any liability to the Vendor.

The parties hereby specifically agree that:

1. The Aquaculture Farm voluntarily waives the entitlement to dividend in JV Company for the first three full financial years (i.e. 2014-2016).
2. All taxes resulting from the transfer of the equity rights under the Acquisition Agreement which are to be paid according to the law shall be responsible and paid for by the respective tax liable party accordingly.
3. If the Target Company or JV Company is required by the law to make payment or settle such liabilities first under the following situations, the Vendor agrees to bear full responsibilities and shall compensate the Purchaser, or Target Company, or JV Company in full by cash within a time period specified by the Purchaser:
 - (1) Any responsibilities, debts and claims in relation to the Target Company and/or JV Company that have occurred or existed prior to Completion and any disputes and litigations arising therefrom;
 - (2) Any events or actions, and any debts or liabilities responsible by the Target Company and/or JV Company prior to Completion and any disputes and litigations arising therefrom;
 - (3) Any losses, fines, fees and expenses of the Target Company and/or JV Company due to the conduct, existence or occurrence of any actions (or non-actions) prior to Completion and any disputes and litigations arising therefrom;
 - (4) Any other debts or liabilities that are not indicated in the Financial Statement but responsible by the Target Company and/or JV Company prior to Completion, and any disputes and litigations arising therefrom.

In relation to the Target Company, the aforesaid period refers to the period from the time when the Vendor became the shareholder of the Target Company to the date of Completion.

4. The board of directors of JV Company shall be formed by 5 members, of which 3 will be appointed by the Target Company and 2 will be appointed by Aquaculture Farm.
5. The Vendor and the Guarantors are responsible for completing the construction of Phase I. Subsequent construction funds of Phase I and the debts arising from Phase I construction shall be responsible by the Vendor and the Guarantors.
6. The Purchaser shall have the right to early terminate the Acquisition Agreement should there be any of the following events of default by the Vendor:
 - (1) if the Vendor and the Guarantors have made any statements, representations, warranties and undertakings which are in fact untrue or inaccurate, or the Target Company and/or the JV Company is/are under any form of judicial (administrative) investigation or any action is taken against them by government authorities for illegality or regulatory non-compliance, and the Purchaser considers the above event(s) cause (or may cause) material adverse impact to the net asset values of the Target Company and/or JV Company, or to the operation or prospect of the JV Company;
 - (2) if the JV Company is unable to carry on its original scope of business, or cannot conduct business in the original mode of operation, or the original mode of operation has become illegal, or the business qualification, business license, authorization, rights or privileges originally possessed and enjoyed by the JV Company has/have been cancelled, and the Purchaser considers that the above event(s) will materially affect the operation or prospects of the JV Company.

Where the Purchaser terminates the Acquisition Agreement in accordance with the aforesaid terms, the Vendor shall refund the earnest money and any considerations (if applicable) already paid by the Purchaser to the Vendor, and any funds contributed to the Target Company and/or the JV Company, and any kind of disbursements paid out for the Target Company and/or JV Company by the Purchaser in a lump sum together with the costs of the funds at an annual interest rate of 10%.

Source of Fund for the Acquisition

The consideration of the Acquisition shall be financed by internal cash flow from the operation of the Group and bank loans, if necessary.

Financial Information on the Target Company and JV Company

The financial information of the Target Company for the two financial years ended 31 December 2012 is set out below:

	Year ended 31 December 2011 <i>RMB</i> (Audited)	Year ended 31 December 2012 <i>RMB</i> (Audited)
Profit before tax and extraordinary items	-23,977	-16,409
Profit after tax and extraordinary items	-23,977	-16,409

As at 31 December 2012, the audited net assets of the Target Company amounted to approximately RMB48,879.

The financial information of JV Company for the two financial years ended 31 December 2012 is set out below:

	Year ended 31 December 2011 <i>RMB</i> (Unaudited)	Year ended 31 December 2012 <i>RMB</i> (Audited)
Profit before tax and extraordinary items	0	0
Profit after tax and extraordinary items	0	0

As at 31 December 2012, the audited net assets of JV Company amounted to approximately RMB90,573,360.

Information on the Group, the Target Company, JV Company, New Huahai and the Aquaculture Farm

The Group is principally engaged in the operation of gas pipeline connection, gas sales, gas refilling stations investment and operation and LNG plant investment and operation in the PRC.

The Target Company, which is an investment holding company incorporated in Hong Kong with limited liability, holds 60% equity interests in JV Company. Save as its equity interests in JV Company, the Target Company has no business operations and holds no interests in any other companies.

JV Company is a company established in the PRC with limited liability, and the Target Company and the Aquaculture Farm hold 60% and 40% of its equity interests respectively. The government of the triple-township of Fuyang, Longhu and Dongfeng in Chaozhou has authorized JV Company to engage in the investment and construction of natural gas pipelines, as well as the distribution and sales of natural gas.

New Huahai, a company incorporated in the PRC with limited liability, is a modern industrialized agricultural conglomerate engaging in the operation of agricultural products further processing, integrated agricultural utilization and comprehensive development of agricultural technologies.

The Aquaculture Farm, a sole proprietorship enterprise in the PRC with limited liability, is engaged primarily in the operation of freshwater fish farming and sales.

Reason and Benefits for the Acquisition

The production of ceramics in Chaozhou has more than one thousand years of history. It is the largest production and exporting base of arts and crafts porcelains, daily-used porcelains and sanitary ware in the PRC. It is also one of the few regions in the PRC where LPG (liquefied petroleum gas) and LNG (liquefied natural gas) are heavily used. Currently, LPG is widely used among the ceramic industry users in Chaozhou, accounting for approximately one-sixth of the annual usage in Guangdong Province. Ceramic industry users prefer to use LNG which is cleaner, of superior quality and is more competitive in the market. With the gradual popularity of LNG in recent years, Chaozhou has become one of the top LNG users in the Pearl River Delta area in terms of annual usage. The end-user prices of natural gas in this area are determined by referring to those of LNG. This gives a relative price advantage over LPG, and better room for the gross margin of each unit of gas volume.

With the rapid development of Chaozhou ceramic industry, the ceramic industrial enterprises are gradually moving toward the south-east of Chaozhou (to the direction of Fuyang, Longhu and Dongfeng). With the current ceramic industry foundations in these three towns, there will be a lot of room for the growth of the natural gas market in ceramic production in this area in the future. JV Company has already installed most of the pipelines and facilities needed for natural gas in these three towns. The whole project is expected to be completed in the first half of 2014, at which time the supply of gas to end-users will begin. According to surveys and researches conducted by the Group with the current users of ceramic industry in the three towns, there are no less than 260 companies within the operating area of JV Company. It is expected that gas consumption will reach 600,000 m³/day for the current users of ceramic producers, and the potential market capacity will be over 1,000,000 m³/day. It is expected that after JV Company's gas supply and distribution is in operation, the supply will reach 300,000 m³/day within two years, and exceed 400,000 m³ within three years.

Very successful precedent cases with similar business model have been found in the other industrial park districts in Chaozhou. The Board believes that, with this Acquisition, the Group will hold a controlling interest in JV Company through the Target Company. This is an opportunity for the Group not only to gain access to the natural gas market in southern part of the PRC, but also provide a solid foundation for the rapid uplifting of natural gas production as well as a continuous and steady income in the sale of gas, and a good platform for the future natural gas business development in southern part of the PRC.

Having considered the above benefits, the Directors (including all independent non-executive Directors) are of the view that the terms and conditions of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the shareholders of the Company as a whole.

Implications under the Listing Rules

As the applicable percentage ratios for the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Definitions

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Acquisition”	the acquisition of the Sales Shares under the Acquisition Agreement and the transactions contemplated thereunder
“Acquisition Agreement”	the sale and purchase agreement entered into between the Purchaser, the Vendor and the Guarantors on 25 December 2013 in respect of the enterprise issued share capital of the Target Company
“Aquaculture Farm”	潮安縣古巷華洲水產養殖場 (Chaoan County Guxiang Huazhou Aquaculture Farm), a sole proprietorship enterprise in the PRC
“Board”	the board of Directors of the Company

“business day”	a day on which banks in Hong Kong are open for business and which is not a Saturday
“Company”	China Tian Lun Gas Holdings Limited (中國天倫燃氣控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of sale and purchase of the Sales Shares in accordance with the terms and conditions of the Acquisition Agreement
“Director(s)”	director(s) of the Company
“Financial Statements”	the audited accounts of the Target Company for the year ended 31 December 2012 and its management account as at 30 November 2013, and the audited accounts of JV Company for the year ended 31 December 2012 and its management account as at 30 November 2013
“Gas Supply Agreements”	gas supply agreements to be entered into between the JV Company and the consumers in the area covered by Phase I pipe network of JV Company, with a guaranteed natural gas supply capacity of not less than 300,000 m ³ per day
“Group”	the Company and its subsidiaries
“Guarantors”	collectively Mr. Huang, New Huahai and Aquaculture Farm
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any individual(s) or any company(ies) who or which is/are independent of and is/are not connected with any director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“JV Company”	潮州市華茂能源配送有限公司 (Chaozhou Huamao Energy Distribution Company Limited), a company established in accordance with the law of the PRC with limited liability and the equity interest of which was owned as to 60% by the Target Company and 40% by Aquaculture Farm as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNG”	liquefied petroleum gas
“LPG”	liquified natural gas
“Mr. Huang”	黃金松先生 (Mr. Huang Jinsong)
“New Huahai”	新華海集團有限公司 (New Huahai Group Limited), a company established in the PRC with limited liability
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Phase I”	Three LNG storage tanks, each of 200 m ³ , and associated pipelines and facilities within the plant, connection of outbound pipelines to the external network, which achieves the connection to the pipeline network within the operation area and possesses the capability of supplying gas to the surrounding users

“Purchaser”	Tian Lun New Energy Limited (天倫新能源有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Sales Shares”	100,000 ordinary shares of HK\$1 each in the share capital of the Target Company, representing its entire issued share capital as at the dates of the Acquisition Agreement and its Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	華盛世紀有限公司 (Wah Shing Century Limited), a company incorporated in Hong Kong with limited liability, the entire issued share capital of which was held by the Vendor as at the date of this announcement
“Target Group”	the Target Company and JV Company
“Vendor” or “Mr. Chen”	陳建全先生 (Mr. Chen Jianquan), the legal and beneficial owner of the entire issued share capital of the Target Company as at the date of this announcement
“m ³ ”	cubic metres
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

By order of the Board
China Tian Lun Gas Holdings Limited
Zhang Yingcen
Chairman

Zhengzhou, the PRC, 27 December 2013

In this announcement, the English names of the PRC entities are translation of their Chinese names and included for identification purpose only. In the event of inconsistency, the Chinese names shall prevail.

As at the date of this announcement, the executive Directors are Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan, Mr. Hu Xiaoming, Mr. Feng Yi, Mr. Sun Heng and Ms. Li Tao; and the independent non-executive Directors are Mr. Cao Zhibin, Mr. Li Liuqing, Mr. Zhang Jiaming and Ms. Zhao Jun.