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天伦燃气
TIANLUN GAS

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 90% EQUITY INTEREST IN A GAS COMPANY IN SHANTOU CITY, THE PRC

The Board announces that the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendors and the Guarantor entered into the Acquisition Agreement on 9 May 2014, pursuant to which the Purchaser conditionally agreed to acquire 90% equity interest in the Target Company at a total consideration of no more than RMB270,000,000, comprising a basic consideration of RMB189,000,000 and a variable consideration which shall be determined based on the audited net profit of the Target Group for 2014.

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 but is exempt from the shareholder's approval requirement under Chapter 14 of the Listing Rules.

The Board announces that the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendors and the Guarantor entered into the Acquisition Agreement on 9 May 2014, pursuant to which the parties conditionally agreed to conduct the Acquisition.

The principal terms of the Acquisition Agreement are set out as follows:

THE ACQUISITION AGREEMENT

Date: 9 May 2014

Parties: Henan Tian Lun (the Purchaser);

Mr. Xie, Mr. Lin and Mr. Wang (the Vendors); and

Mr. Xie (the Guarantor).

The Vendors are the legal and beneficial owners of the entire equity interest in the Target Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquires, each of the Vendors and the Guarantor is an Independent Third Party.

THE ACQUISITION

Immediately preceding the Acquisition, the Vendors in aggregate hold 100% equity interest in the Target Company, of which Mr. Xie, Mr. Lin and Mr. Wang hold approximately 71.014%, 14.493% and 14.493% respectively; the Target Company holds 60% equity interest in Chaoyang Company whose remaining 40% equity interest is held by an Independent Third Party. As a condition precedent, the Target Company shall hold 100% equity interest in Chaoyang Company. Pursuant to the Acquisition Agreement, the Purchaser shall acquire 61.014%, 14.493% and 14.493% equity interest in the Target Company held by Mr. Xie, Mr. Lin and Mr. Wang respectively, representing a total of 90% equity interest in the Target Company. Upon completion of the Acquisition, the Purchaser and Mr. Xie will hold 90% and 10% equity interest in the Target Company respectively, which will in turn hold 100% equity interest in Chaoyang Company.

CONSIDERATION AND PAYMENT METHOD

The total consideration of the Acquisition Agreement shall not exceed RMB270,000,000 and shall be subject to adjustments and payable by the Purchaser to the Vendors in the following manner:

1. Within 3 business days of the signing of the Acquisition Agreement, Mr. Xie and the Purchaser shall open a joint bank account. Mr. Lin and Mr. Wang have confirmed that they have authorised Mr. Xie to handle matters in relation to the change in business registration of the Target Company, the handing over of the management rights of the Target Company and receipt of the consideration of the equity transfer. Such authority is irrevocable during the performance of the Acquisition Agreement.
2. All creditor's right and liabilities of the Target Group as at the Benchmark Date shall be assumed by the Target Group. However, 90% of the sum of the total liabilities of the Target Group net of its total creditor's right, cash on hand and bank deposit of RMB2,972,500 shall be reimbursed by the Vendors to the Purchaser by deducting the corresponding amount of RMB8,604,300 directly from the Purchaser's initial payment of the basic consideration. If within one year of the signing of the Acquisition Agreement the Target Group fails to recover the full amount of its creditor's right, the unrecovered portion of the creditor's right will be treated as invalid creditor's right, 90% of which shall be directly deducted by the Purchaser from the total consideration.
3. Basic consideration:

The Vendors and the Purchaser have determined the basic consideration of the transaction to be RMB189,000,000. After deducting the earnest money paid by the Purchaser of RMB40,000,000 (which will be set off against the consideration of the equity transfer as agreed by the Vendors) as well as 90% of the sum of the total liabilities of the Target Company net of its total creditor's right, cash on hand and bank deposit of RMB2,972,500, the actual basic consideration payable shall be RMB140,395,700, which shall be subject to adjustments and be payable to the Vendors in two instalments as follows.

Initial payment:

Within 3 business days of the opening of the joint account, the Purchaser shall transfer RMB70,000,000 of the actual basic consideration into such joint account. Within 20 business days of such transfer into the joint account, the Vendors shall complete the following work:

- (1) assisting the Purchaser in filing tax returns in respect of this equity transfer in accordance with the law for the taxation authority to assess deductible cost and taxable amount;
- (2) cooperating on the change in registration of ownership of 90% equity interest in the Target Company to be registered in the name of the Purchaser;
- (3) cooperating with the Purchaser on the handing over of the operation and management rights and assets of the Target Group as well as checking and auditing the assets, creditor's right and liabilities of the Target Group; and
- (4) reimbursing the Target Company for the interest on the bank loan of the Target Company amounting to RMB53,000,000 for the period from the date following the Benchmark Date to the date of completion of handing-over.

Within 3 business days of the satisfaction of all the conditions above, the Vendors and the Purchaser shall adjust the amount of initial payment as agreed as follows and release the joint control over the amount payable (the remaining balance of the joint account shall be vested for the benefit of the Purchaser). The principles of adjusting the amount of initial payment are as follows:

- a. If the examination reveals that the amount of the physical assets of the Target Group is lower than the amount of its assets as at the Benchmark Date as a result of reasons other than normal wear and tear, the Purchaser shall reduce the amount of initial payment to the carrying amount or the fair value agreed by the parties if the carrying amount is not available; and
- b. If the examination reveals that the amount of the total liabilities of the Target Group is higher than the amount of its liabilities as at the Benchmark Date and the increased liabilities were incurred on or before the Benchmark Date, the amount of initial payment shall be reduced by the amount of the increased liabilities. For liabilities newly-incurred after the date following the Benchmark Date without the written consent of the Purchaser, they shall be deducted from the amount of initial payment.

Second payment:

Within 5 business days of the completion of the collection of the receivables of the Target Company as at the Benchmark Date (amounting to RMB50,811,600 in total, including trade and other receivables), the Purchaser shall pay to the Vendors RMB70,395,700.

4. Variable consideration:

Within 5 business days of the satisfaction of the following conditions, the Purchaser and the Vendors shall together determine and pay to the Vendors the variable consideration:

- (1) If the audited total net profit of the Target Group for the full financial year of 2014 amounts to RMB25,000,000, the consideration shall be RMB49,500,000. If the audited net profit of the Target Group for 2014 is lower than RMB25,000,000, the consideration shall be reduced by RMB2,250,000 for every RMB250,000 shortfall in its net profit until the lower end of the variable consideration, i.e. RMBnil. If the audited net profit of the Target Group for 2014 is higher than RMB25,000,000, the consideration shall be increased by RMB2,250,000 for every additional RMB250,000 in its net profit until the upper end of the variable consideration, i.e. RMB67,500,000.
- (2) If defects in titles of and contingent liabilities in respect of the assets of the Target Group are identified within 12 months of the date of the Acquisition Agreement, the Purchaser may deduct the corresponding amount from the payment (unless it is already deducted from the initial payment of the basic consideration) and shall have recourse against the Vendors for any shortfall.

5. Reserved consideration:

If within one year of the signing of the Acquisition Agreement the region covered by the operation rights of the Target Group has remained intact and no competition from any third party has occurred in the region, the Purchaser shall pay to the Vendors RMB13,500,000 within 3 business days of the satisfaction of such condition.

The Vendors have agreed that the Purchaser may directly deduct from the payment the individual income tax payable by the Vendors in respect of the gains on receiving consideration payment in making the above-mentioned payment, unless otherwise required by the taxation authority.

The consideration of the Acquisition Agreement has been determined by the parties to the Acquisition Agreement after arm's length negotiations and with reference to the net asset value of the Target Group as at 31 December 2013, the regions where the Target Company's gas operation operates and its customer base, and the potential growth in operations and future profit of the Target Group.

SOURCE OF FUND FOR THE ACQUISITION

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

CONDITIONS PRECEDENT

1. The Target Company shall first acquire the remaining 40% equity interest in Chaoyang Company, completion of which shall be subject to change in business registration, to hold 100% equity interest in Chaoyang Company; and
2. The Company approves the Acquisition at a Board meeting and a general meeting, if necessary, under the Listing Rules.

SPECIFIC PROVISIONS

1. Any identifiable liabilities not disclosed by the Vendors and incurred prior to the date of completion of handing-over of the management rights of the Target Group shall be assumed by the Vendors, and the Vendors shall indemnify in full the Purchaser or the Target Company against any losses incurred by them as a result of any such liabilities.
2. As at the date of the Acquisition Agreement, the reserves of the Target Group shall be vested in the Target Group after completion of the equity transfer, for which the Vendors and other related parties shall no longer have any claims.
3. As at the date of the Acquisition Agreement, there shall be no assets of the Target Group that shall be but are not disclosed, nor are there any omission in disclosure of assets. If there are any of such assets, they shall be treated as assets of the Target Group after completion of the equity transfer, for which the Vendors shall no longer have any claims.
4. None of the Vendors or any of their respective associates shall operate on their own or for others or through joint venture any business that is the same as or similar to or compete with the business of the Target Group within its scope of exclusive operation rights at any time.
5. The Vendors shall have truthfully disclosed to the Purchaser all liabilities, contingent liabilities and disputes of the Target Group or those liabilities, contingent liabilities and disputes shall have been recognised by the Purchaser. Other than that, the Vendors have undertaken that there are no liabilities, contingent liabilities, labour disputes or any other matters that are unfavourable to the Purchaser or the Target Group as at the date of completion of handing-over of the operation and management rights of the Target Group. If any, the Vendors shall assume full responsibility and shall indemnify or compensate the Purchaser or the Target Group in full against any losses incurred by them for such reasons.
6. The Target Group shall have paid all relevant taxes and levies in accordance with national and local laws and regulations before the Purchaser takes over the Target Group. In the event of any additional taxation, penalties or levies imposed on the Target Group by the competent authorities, all relevant liabilities and expenses shall be borne by the Vendors.
7. The Vendors warrant that as at the date of the Acquisition Agreement, no documents shall have been issued by any governmental and relevant authorities that have any material adverse impact on the exclusive operation right of the Target Group, and no competition from any third parties shall exist within the geographical scope of the exclusive operation right of the Target Group.
8. The Vendors shall indemnify or compensate the Purchaser in full against any losses suffered by the Target Group as a result of any labour disputes involving matters occurred prior to the date of completion of handing-over of the operation and management rights of the Target Group.

LIABILITY FOR DEFAULT

1. If the Purchaser fails to pay any instalment as agreed in the Acquisition Agreement while the Vendors have strictly complied with their obligations under the agreement, the Purchaser shall pay to the Vendors a penalty of 0.05% of the outstanding amount payable by the Purchaser for every day for the period following the date of default. However, if the Vendors violates its contractual obligations or is expected to default in the first place, the Purchaser shall have the right of defence.
2. Save for the above, any party that violates its contractual obligations under the Acquisition Agreement shall pay to the non-defaulting party RMB500,000 as a penalty and shall compensate the other party for any shortfall if the penalty is insufficient to cover its losses.
3. If any party fails to discharge its obligation to complete procedures for change in business registration or does not cooperate on the handing-over of the Target Group, and within 20 business days of notice by the other party it/he still does not cooperate with the other party in completing procedures for change in business registration or the handing-over, the defaulting party shall pay to the non-defaulting party a penalty equivalent to 20% of the total consideration of the transfer and indemnify the non-defaulting party against any losses incurred, and the non-defaulting party shall have the right to terminate the Acquisition Agreement.
4. If, following the signing of the Acquisition Agreement, the Vendors transfer any equity interest in the Target Company to any third party without the consent of the Purchaser which prevents the completion of the Acquisition, the Purchaser shall have the right to terminate the Acquisition Agreement and the Vendors shall pay to the Purchaser a penalty equivalent to 20% of the total consideration of the transfer and indemnify the Purchaser against any losses incurred.
5. If within one year of the signing of the Acquisition Agreements the exclusive operation right of the Target Group is suspended or revoked for reasons on the part of the Vendors or material defects in the exclusive operation right are identified such as competitors are found to exist in the geographical scope of the exclusive operation right, the Vendors shall pay to the Purchaser a penalty equivalent to 20% of the total consideration of the transfer and indemnify the Purchaser against any losses incurred, and the Purchaser shall have the right to terminate the Acquisition Agreement.
6. If any party fails to pay or delays in payment of the above penalty and compensation, the non-defaulting party shall have the right to directly increase or reduce the consideration payable or receivable by the defaulting party.

GUARANTEE PROVISION

The Guarantor has agreed to provide a joint guarantee for the performance by the Vendors of their obligations under the Acquisition Agreement by way of pledging his 10% equity interest in the Target Company in favour of the Purchaser. If the Vendors fail to perform any of their obligations under the Acquisition Agreement, the Purchaser shall have the right to enforce the guarantee which shall cover the principal creditor's right and related interest, the penalty, the liquidated damage and the costs of realisation of the creditor's rights and the pledge right.

FINANCIAL INFORMATION OF THE TARGET GROUP

The consolidated financial information of the Target Group for the two financial years ended 31 December 2013 is as follows:

	For the year ended 31 December 2012 <i>RMB</i> (Unaudited)	For the year ended 31 December 2013 <i>RMB</i> (Audited)
Profit before taxation and extraordinary items	3,916,919.48	20,754,678.78
Profit after taxation and extraordinary items	2,937,689.61	15,507,346.97

The audited consolidated net assets of the Target Group as at 31 December 2013 were approximately RMB32,567,924.90.

INFORMATION OF THE GROUP AND THE TARGET GROUP

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 a company incorporated in the PRC with limited liability, is principally engaged in natural gas operations in Chenghai District, Shantou City, the PRC.

Chaoyang Company is a company incorporated in the PRC with limited liability and is principally engaged in natural gas operations in Chaoyang District, Shantou City, the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group has been making great efforts into developing gas projects in affluent areas such as Beijing, Tianjin, Hebei, Yangtze River Delta and Pearl River Delta. As one of the first five special economic zones for implementation of the opening-up policy in the PRC, Shantou is an important transportation hub, import and export port and goods distribution centre in eastern Guangdong, southern Jiangxi and south-western Fujian, as well as an important connection link between Pearl River Delta and the Western Taiwan Straits Economic Zone.

Chenghai District and Chaoyang District in Shantou City, where the Target Group operates, are important components of Shantou's economy. There is dense population and great room for development of civil and commercial gas markets in these areas. In addition, due to Chenghai District's position as an important toy manufacturing base and Chaoyang District's position as a major textile and apparel, music and video and stationery and mechanical and electronic industry cluster in the PRC, there is huge potential for the industrial gas market. Through the Acquisition, the Group will obtain a project in Chenghai District and Chaoyang District of Shantou City, which is expected to provide the Group with considerable profitability. Also, these areas are adjacent to the area of the Group's gas project in Chaozhou City, which will create synergies. Building on its presence in eastern Guangdong, the Group will rapidly expand into the surrounding areas and further increase its market share in southern China.

In view of the above, the Directors (including all independent non-executive Directors) are of the view that the terms and conditions of the Acquisition Agreement are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders 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 but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Acquisition”	transfer of equity interest and the transactions contemplated under the Acquisition Agreement
“Acquisition Agreement”	the equity transfer agreement dated 9 May 2014 entered into between the Purchaser, the Vendors and the Guarantor
“Benchmark Date”	31 December 2013
“Board”	the board of Directors of the Company
“Chaoyang Company”	Shantou City Chaoyang District Min'an Pipeline Gas Company Limited (汕頭市潮陽區民安管道燃氣有限公司)

“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 Stock Exchange of Hong Kong Limited
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Xie Xiongwei
“Independent Third Party”	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
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Lin”	Mr. Lin Musheng (林木盛)
“Mr. Wang”	Mr. Wang Zhixiong (王志雄)
“Mr. Xie”	Mr. Xie Xiongwei (謝雄偉)
“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
“Purchaser” or “Henan Tian Lun”	Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Target Company”	Shantou City Chenghai Gas Construction Company Limited (汕頭市澄海燃氣建設有限公司)
“Target Group”	the Target Company and Chaoyang Company
“Vendors”	collectively, Mr. Xie Xiongwei (謝雄偉), Mr. Lin Musheng (林木盛) and Mr. Wang Zhixiong (王志雄)
“%”	per cent

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

Zhengzhou, the PRC, 9 May 2014

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.