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天倫燃气
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)

**MAJOR TRANSACTION
IN RELATION TO THE ESTABLISHMENT OF A COAL-TO-GAS
CONVERSION INVESTMENT FUND**

ESTABLISHMENT OF THE FUND

China Tian Lun Gas Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce that, on 27 June 2018 (after trading hours), Henan Tian Lun Gas Group Limited* (河南天倫燃氣集團有限公司) (“**Henan Tian Lun**”, as a limited partner), an indirect wholly-owned subsidiary of the Company, entered into a partnership agreement (the “**Partnership Agreement**”) with Henan Zhongyu Financial Holdings and Equity Investment Management Co., Ltd.* (河南省中豫金控股權投資管理有限公司) (“**Henan Zhongyu**”, as the general partner) and Henan Yuzi Urban and Rural Integration Construction and Development Co., Ltd.* (河南省豫資城鄉一體化建設發展有限公司) (“**Yuzi Development**”, as a limited partner; Henan Tian Lun, Henan Zhongyu and Yuzi Development together, the “**Partners**”) in relation to the establishment of Henan Yuzi Tianlun New Energy Investment Fund Centre (Limited Partnership)* (河南豫資天倫新能源投資基金中心(有限合伙)) (the “**Fund**”) (the “**Transaction**”).

Pursuant to the Partnership Agreement: (i) the total capital contribution to the Fund to be made by the Partners shall be RMB10 billion, of which RMB1 million, RMB5,999 million and RMB4 billion shall be made by Henan Zhongyu, Yuze Development and Henan Tian Lun, respectively; (ii) the first phase of the Fund is RMB1 billion, of which RMB600 million will be contributed by Yuze Development and RMB400 million by Henan Tian Lun; (iii) the remaining capital contribution to be made by the Partners shall be made by tranches in view of the investment plan and progress of the Fund.

Both of Henan Zhongyu and Yuze Development are controlled by Zhongyuan Yuze Investment Holding Group Co., Ltd.* (中原豫資投資控股集團有限公司) (“**Yuze Holding**”). Yuze Holding is a provincial investment and financing companies established and wholly-owned by Henan Provincial Finance Department as approved by Henan Provincial Government to support the development of urbanization in new form and foster the integrated development of urban and rural areas in Henan Province. As at the end of 2017, Yuze Holding had total assets of RMB250 billion, ranking No.1 among government investment and financing companies in Henan Province, with a domestic credit rating of AAA and an international credit rating of A-.

The Fund intends to establish a project holding company, which will utilise the funds provided by the Fund, government grants and long-term facilities to be provided by policy banks and financial institutions to invest in coal-to-gas conversion projects in the townships in Henan Province and the upstream and downstream natural gas industrial chain, so as to capture the opportunities to be brought by the rapid development of the natural gas industry in the PRC and explore the huge potential of the natural gas market in the townships in Henan Province through making full use of the advantages of the Partners.

IMPLICATIONS UNDER THE LISTING RULES

As one or more applicable percentage ratios under Chapter 14 of the Listing Rules exceed 25% but are less than 100%, the establishment of the Fund under the Partnership Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules. The Company has obtained the written approvals of Tian Lun Group Limited and Chequers Development Limited (which hold 471,171,300 shares and 63,728,000 shares of the Company, representing 47.61% and 6.44% of the issued share capital of the Company respectively, as at the date of this announcement and are under the control of Mr. Zhang Yingcen, the ultimate controlling shareholder of the Company) for the Company’s investment in the Fund. In accordance with Rule 14.44 of the Listing Rules, as (i) a closely allied group of shareholders who together hold more than 50% of the voting rights of the Company have issued written approvals for the Transaction; and (ii) no shareholders are required to abstain from voting at the general meeting approving the Transaction, no extraordinary general meeting of the Company is required nor will it be held to approve the Transaction. The Company expects to issue a circular containing, among others, further information on the Transaction to its shareholders on or before 18 July 2018.

BACKGROUND OF THE ESTABLISHMENT OF THE FUND

Natural gas consumption in the PRC grew quickly in recent years as the PRC government strengthened control over air pollution. According to the National Development and Reform Commission, in 2017, the natural gas consumption in the PRC amounted to 237.3 billion m³, representing a year-on-year increase of 15.3%; natural gas production amounted to 148.7 billion m³, representing a year-on-year increase of 8.5%; natural gas import amounted to 92 billion m³, representing a year-on-year increase of 27.6%.

Henan is a large province in the PRC in terms of population and economy. As at the end of 2017, Henan Province had a population of 109 million, ranking No.1 in the PRC in terms of household registered population. Henan Province has 108 county-level administrative regions, approximately 1,900 townships and 15 million households in townships. In 2017, Henan had a gross domestic product of RMB4.5 trillion and government spending in people's living of RMB639 billion.

Located in the central part of China, Henan Province has good conditions to natural gas supply as national trunk pipelines including the West-East Pipelines I and II and Yulin-Jinan Pipeline go through Henan. By 2020 the total natural gas pipeline mileage in Henan Province is expected to exceed 7,000 kilometres. Henan Province vigorously promoted coal-to-gas conversion and plans to reduce total coal consumption in Henan Province by approximately 10% from 2015 to below 213 million tonnes in 2020 and to increase natural gas consumption to 17 billion m³, accounting for over 8.5% of total energy consumption in Henan Province.

The Company is of the view that there is great potential in the coal-to-gas conversion in townships in Henan Province, mainly for the following reasons: (i) the township gas penetration rate in Henan Province currently is less than 5%; (ii) Henan Province is located in a plain area, with concentrated township population, which is beneficial for large-scale gas connection; (iii) Henan Province is in central China, with a number of national trunk natural gas pipelines going through, which provide good conditions to natural gas supply; (iv) governments at all levels in Henan Province launched a large number of policies to support the development of township coal-to-gas conversion.

In order to explore the great potential in the natural gas market in the townships in Henan Province, the Group partnered with Yuzi Holding to establish the Fund to invest in coal-to-gas conversion projects in the townships in Henan Province and the upstream and downstream natural gas industrial chain.

INFORMATION ON THE PARTNERS OF THE FUND

Henan Zhongyu and Yuzi Development

Both of Henan Zhongyu and Yuzi Development are controlled by Yuzi Holding.

Established in 2011, Yuzi Holding is a provincial investment and financing company established and wholly-owned by Henan Provincial Finance Department as approved by Henan Provincial Government to support the development of urbanization in new form and foster the integrated development of urban and rural areas in Henan Province. As at the end of 2017, Yuzi Holding had total assets of RMB250 billion, ranking No.1 among government investment and financing and financing companies in Henan Province, with domestic credit rating of AAA and an international credit rating of A-.

Yuzi Holding is principally engaged in the investment in people's livelihood projects in Henan Province including old city reconstruction, targeted poverty alleviation, beautiful countryside and township infrastructure. Under the unified arrangement of Henan Provincial Government, Yuzi Holding conducts business through government-guided and market-oriented operations, and has established good cooperation with major policy banks and financial institutions.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Henan Zhongyu, Yuzi Development, Yuzi Holding and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Henan Tian Lun

Henan Tian Lun is an indirect wholly-owned subsidiary of the Company.

The Group was one of the first few integrated clean energy groups in the PRC which commenced city gas business. Its scope of business includes city gas, refilling stations and CNG primary stations, LNG plant projects, long-haul pipelines and direct industrial supply. It currently has 57 city gas projects, 51 refilling stations, 2 LNG plant projects and 6 long-haul pipelines in 16 provinces across China.

Based in Henan Province, the Group is the only national city gas listed company which was established and has headquarters in Henan Province, with business covering most areas of Henan Province. The Group's business covers the whole industrial chain in the gas distribution industry and it has an experienced management team which is familiar with Henan market.

PRINCIPAL TERMS OF THE PARTNERSHIP AGREEMENT

On 27 June 2018 (after trading hours), Henan Zhongyu, Yuzi Development and Henan Tian Lun entered into the Partnership Agreement.

Date 27 June 2018

Name of the Fund Henan Yuzi Tianlun New Energy Investment Fund Centre (Limited Partnership)* (河南豫資天倫新能源投資基金中心(有限合伙))

General partner Henan Zhongyu

The general partner will be responsible for the management and operation of the Fund.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the general partner and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Limited partners Yuzi Development and Henan Tian Lun.

Both of Yuzi Development and Henan Zhongyu are controlled by Zhongyuan Yuzi Investment Holding Group Co., Ltd.* (中原豫資投資控股集團有限公司) (“**Yuzi Holding**”).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Yuzi Development, Yuzi Holding and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Term of the Fund 15 years commencing on the date of establishment. The general partner may propose to extend or shorten the term of the Fund subject to written consent of all Partners.

Scope of investment Mainly coal-to-gas conversion projects in the townships in Henan Province and the upstream and downstream natural gas industrial chain.

**Amount of contribution
by each partner**

- (i) The total capital contribution to the Fund to be made by the Partners shall be RMB10 billion, of which RMB1 billion, RMB5,999 million and RMB4 billion shall be made by Henan Zhongyu, Yuzi Development and Henan Tian Lun, respectively, and the capital contribution of each Partner shall be fully made no later than 31 December 2033;
- (ii) The first phase of the Fund is RMB1 billion, of which RMB600 million will be contributed by Yuzi Development and RMB400 million by Henan Tian Lun, and the first phase capital contribution of each Partner shall be made right after the Fund has completed required registrations.
- (iii) The remaining capital contribution to be made by the Partners shall be made by tranches in view of the investment plan and progress of the Fund.

The amounts of the capital contribution to be made by the Partners were determined by the parties following arm's length negotiations.

**Investment decision-making
committee**

The Fund shall set up an investment decision-making committee comprising three members, of which two will be nominated by Yuzi Development and one by Henan Tian Lun. Each member shall have one vote. The investment decision-making committee of the Fund shall have a chairman, which will be nominated by Yuzi Development and be responsible for convening and presiding over the investment decision-making committee meetings.

All decisions of the investment decision-making committee relating to the investment in coal-to-gas conversion projects shall be unanimously passed by all members of the committee.

**Process of investment
operation**

- i. Collection of information on projects
- ii. Preliminary review of projects
- iii. Initiation of projects

- iv. Due diligence
- v. Due diligence results review
- vi. Decision-making by the investment decision-making committee
- vii. Investment in projects
- viii. Post-investment management and divestment of projects

Construction and operation

The Fund has appointed Henan Tian Lun to be responsible for the construction and operation of coal-to-gas conversion projects in Henan Province to be invested by the Fund, for which separate agreements will be entered into between Henan Tian Lun and the project holding company to be established by the Fund.

REASONS FOR AND BENEFITS OF THE ESTABLISHMENT OF THE FUND

The Board believes that the establishment of the Fund will enable the Group to capture the opportunities to be brought by the rapid development of the natural gas industry in the PRC and make full use of its local advantages in Henan Province and in the cooperation with Yuzi Holding in order to explore the great potential in the natural gas market in the townships in Henan Province.

The Board (including independent non-executive Directors) is of the view that the terms of the Partnership Agreement and the relevant documentation are fair and reasonable and on normal commercial terms and that the transaction contemplated under the Partnership Agreement and the relevant documentation is in the interests of the Company and its shareholders as a whole.

The Company intends to finance the Group's contribution and commitment to the Fund with its internal resources.

IMPLICATIONS UNDER THE LISTING RULES

As one or more applicable percentage ratios under Chapter 14 of the Listing Rules exceed 25% but are less than 100%, the establishment of the Fund under the Partnership Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company has obtained the written approvals of Tian Lun Group Limited and Chequers Development Limited (which hold 471,171,300 shares and 63,728,000 shares of the Company, representing 47.61% and 6.44% of the issued share capital of the Company respectively, as at the date of this announcement and are under the control of Mr. Zhang Yingcen, the ultimate controlling shareholder of the Company) for the Company's investment in the Fund. In accordance with Rule 14.44 of the Listing Rules, as (i) a closely allied group of shareholders who together hold more than 50% of the voting rights of the Company have issued written approvals for the Transaction; and (ii) no shareholders are required to abstain from voting at the general meeting approving the Transaction, no extraordinary general meeting of the Company is required nor will it be held to approve the Transaction. The Company expects to issue a circular containing, among others, further information on the Transaction to its shareholders on or before 18 July 2018.

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

Zhengzhou, the PRC, 27 June 2018

As at the date of this announcement, the executive Directors are Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan, Mr. Zhang Suwei, Mr. Feng Yi and Ms. Li Tao; the non-executive Director is Mr. Wang Jiansheng and the independent non-executive Directors are Mr. Liu Jin, Mr. Li Liuqing, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun.

** For identification only*