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)

SUPPLEMENTAL ANNOUNCEMENT

DISCLOSEABLE TRANSACTION
ACQUISITION OF 100% EQUITY INTEREST
IN THE TARGET COMPANIES

Reference is made to the announcement (the "**Announcement**") of China Tian Lun Gas Holdings Limited (the "**Company**") dated 25 December 2020 in relation to the acquisitions of 100% equity interest in Target Company I and Target Companies II, respectively. Capitalised terms used herein shall have the same meanings as those defined in the Announcement unless defined otherwise.

The Board wishes to provide the Shareholders and potential investors with further information with respect to the respective basis of Consideration I and Consideration II by this announcement.

FURTHER INFORMATION ON BASIS OF THE CONSIDERATIONS

Consideration I for 100% equity interest in Target Company I was RMB233,300,000 and Consideration II for 100% equity interest in Target Companies II was RMB832,760,000, respectively. As disclosed in the Announcement, both considerations were determined with reference to, among others, the respective financial information of the Target Companies, as well as other factors such as area of operation and customer base for gas business, profitability, the potential operational growth of the Target Companies, as well as the reasons set out in the section headed "Reasons for and Benefit of Entering into the Equity Transfer Agreements".

In arriving the conclusion that both Consideration I and II were fair and reasonable, the Company had assessed the respective value of the Target Companies based on market approach and considered 6 gas companies acquisition projects conducted by other PRC listed companies which took place from November 2017 up to August 2020 (the "**Comparable Deals**"). The Board considered such Comparable Deals were eligible be adopted as comparable in its market approach assessment since the target companies thereunder were similar to the subject Target Companies, as they also generated their profit principally from gas related business operated in the PRC. A summary of the assessment results is as follows:

	Price-to-earning ratio ("PE ratio") *(times)*	**Price-to-book ratio ("PB ratio")** *(times)*
All Comparable Deals	12.91-52.92	2.06-8.65
All Comparable Deals (after removing the largest and smallest outliers)	13.23-28.95	2.82-6.73
Target Company I (1)	26.97	5.99
Target Companies II (2)	13.97	6.57

Notes:

1. The implied PE ratio (after annualizing the net profit after tax) and PB ratio of Target Company I were calculated based on its net profit after tax for the 7 months ended 31 July 2020 of RMB5,045,673 and the net asset value as at 31 July 2020 of RMB38,690,762.

2. The implied PE ratio (after annualizing the net profit after tax) and PB ratio of Target Companies II were calculated based on its net profit after tax for the 9 months ended 30 September 2020 of RMB44,715,803 and the net asset value as at 30 September 2020 of RMB126,677,070.

Since the implied PE ratio and PB ratios of both Target Company I and Target Companies II were within the range of those of the Comparable Deals (even after removing the outliers), the Board considered both Considerations I and II were fair and reasonable.

Apart from the above assessment, the Company had also taken into account of the following factors to a certain extent in determining Considerations I and II:

1. Synergy effect with existing projects of the Group

As stated in the Announcement, Target Company I has entered into a long-term gas supply cooperation initiative with the natural gas sales Gansu branch of CNPC, henceforth supplying an abundant amount of gas source which provides strong assurance for the future operation of the Company. This long-term cooperation between Target Company I and CNPC is expected to reduce the current costs of gas sales (mainly the transportation fee) for existing matured projects of the Group in Gansu Province.

2. Accounting adjustment due to different depreciation policy

The Group adopts a depreciation period of 25 years for its pipelines whilst Target Company I and Target Companies II adopt a period of 10 years and 20 years, respectively. Depreciation of the pipelines of the Target Companies accelerated accordingly compared with other projects of the Group, and thus the Target Companies recorded a lower net profit and lower net asset. If the Target Companies adopts a depreciation policy in line with the Group, the depreciation of the pipelines of the Target Companies is expected to be reduced and resulted in a higher net profit and net asset.

3. Reduction in administration expenses

The Company intends to pay off part of the existing loans of the Target Companies by utilizing their internal cash of after completion. It is expected the finance costs of the Target Companies will be reduced upon such partial settlement of loans. Further, base on the experience of the Group, the Company is confident that upon taking control of Target Companies II, it can reduce the management costs of Target Companies II. It is expected that such expected reduction in administration expenses will help to increase the net profit of the Target Companies.

INDEPENDENT VALUER'S VIEWS

To support the above analysis of the Company, the Company engaged a qualified independent valuer, Asset Appraisal Limited ("**AAL**"), to review and opine on the reasonableness on the consideration determination process and the quantum of both Considerations I & II after publication of the Announcement.

Valuation Approach

In its assessment on the value of the respective Target Companies, AAL agreed the market approach adopted by the Company is the most optimal approach among other generally accepted approaches given the nature of the business operations of the Target Companies and the availability of market information.

Given the operating results for trailing 12 months ended 31 December 2020 of the Target Companies are available when AAL conducted its review, AAL evaluated the Target Companies based on their respective operating results for the trailing 12 months ended 31 December 2020 and the financial data as prevailing on 31 December 2020 (the "**Relevant Date**") instead of the financial period and base date used by Company in its analysis (Target Company I: 7 months ended 31 July 2020 and 31 July 2020; Target Companies II: 9 months ended 30 September 2020 and 30 September 2020). As the financial period and Relevant Date is just a few months from the respective dates of the Equity Transfer Agreements and there was no material market change has been noticed by the Company between the agreement dates and the Relevant Date, adoption of such financial period and Relevant Date does not have any material impact on the review by AAL.

While AAL agreed the use of PE ratio by the Company was acceptable and reasonable for valuation of gas companies, AAL adopted enterprise value-to-earnings before interest, tax, depreciation and amortization ("**EV-EBITDA**") ratio, being another commonly used price multiples under market approach in its review on the ground that EV-EBITDA ratio is neutral to the choice of capital structure, depreciation and amortization policy as compared to PE ratio.

Valuation based on EV-EBITDA Ratio

AAL selected 16 listed companies which also principally engaged in gas business and having their main market in the PRC as comparable. As at the Relevant Date, the said comparable have an average EV-EBITDA ratio of 13.86 (or 10.54 after excluding the outliners).

Based on the operation results of the Target Companies for the 12 months ended 31 December 2020, the respective indicative fair value of 100% equity interest in the Target Companies are as follows:

	Target Company I *(RMB)*	**Target Companies II** *(RMB)*
Reported earnings before taxation	11,701,339	76,054,627
Adjusted earnings before taxation (1)	15,701,339 (2)	78,105,787 (3)
add finance expenses	1,381,825	6,284,003
add depreciation and amortization expenses	7,969,618	10,251,508
Adjusted EBITDA	25,052,782	94,641,298
EBITDA ratio	10.54	10.54
Enterprise Value	264,151,518	997,878,913
add cash	3,052,477.96	9,599,347.02
less debt	0 (4)	0 (4)
add non-operating assets	0 (4)	0 (4)
100% Equity Value	267,203,996	1,007,478,260
Round to	**267,000,000**	**1,000,000,000**

Notes:

1. Since the Target Companies are private companies and their management may prepare their financial statements in a way not to truly reflect the profitability of the companies. For instance, companies may over-state their operating expenses by taking up wholly or partly the overheads of fellow loss making companies so as to lower their operating profits for tax minimization. As a result, direct adoption of their historical financial information may lead to over or under-valuation. In this regard, it is important to normalize financials when valuing a closely held company using its historical financial data. The same process has been gone through by the valuer in arriving at the reasonable economic measures of the Target Companies to appraise their equity value using EV-EBITDA ratio. The principal adjustments are set out in notes 2-3 below.

2. One of the Company's subsidiaries located nearby the service area of Target Company I is currently relying on gas transmission services (between source of gas and the service area) from an independent third party. Upon acquisition of Target Company I, the Company can satisfy the gas transmission with recourse to the gas pipeline network of the Target Company I. As a result, the Company can reduce its annual cost outlays up to RMB8,000,000. 50% of this cost saving has been taken by the Company in its price determination of the Target Company I.

3. Out of the total administrative expenses of approximately RMB28,765,664 for 2020, a sum of RMB2,051,160 was incurred by Target Companies II was unrelated to their normal course of business operations. Upon acquisition of Target Companies II by the Company, no such expenses shall not be incurred.

4. Share equity value is deduced from the determined enterprise value by adding cash and non-operating assets and deducting total debts of the Target Companies. As mentioned by the Company in the above, the Company intends that all non-operating debts of the Target Companies shall be fully offset against the non-operating receivables such that the Target Companies shall be free from any non-operating debts and non-operating receivables upon completion of the acquisition.

Conclusion

Based on the review and analysis stated above and the indicative fair values of the respective Target Companies, AAL is of the view that the market approach valuation analysis conducted by the Company on both Acquisitions and the quantum of Consideration I and II are considered to be reasonable.

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

Zhengzhou, the PRC, 24 February 2021

As at the date of this announcement, the executive Directors are Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan (Chief Executive), Mr. Liu Min and Ms. Li Tao; and the independent non-executive Directors are Mr. Liu Jin, Mr. Li Liuqing, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun.