
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhongyu Gas Holdings Limited (the “**Company**”), you should at once hand this circular to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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中裕燃气

中裕燃气控股有限公司
ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8070)

PROPOSED ISSUE OF
US\$40 MILLION 1% CONVERTIBLE BONDS DUE 2012

A letter from the board of directors of the Company is set out on pages 6 to 20 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Suite 3016, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Thursday, 21 June 2007 at 11:00 a.m. (the “**EGM**”) is set out on pages 25 to 26 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting as the case may be. Completion and delivery of the enclosed form of proxy will not preclude you from attending and voting at the EGM should you so wish.

This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for seven days from the date of its publication.

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on gem, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

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

“Alternative Stock Exchange”	at any time, if the Shares do not have a primary listing on the Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in
“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Bond Closing Date”	as soon as possible after the fulfillment of the conditions precedent set out in the Bond Subscription Agreement and in any event no later than 25 June 2007 or such other date that the parties thereto may agree
“Bond Subscription Agreement”	the subscription agreement dated 28 May 2007 entered into between the Company and the Subscribers in relation to the issue and subscription of the Convertible Bonds
“Bondholder(s)”	holder(s) of the Convertible Bonds from time to time
“Business Day”	any day (excluding Saturdays, Sundays and public or statutory holidays in Hong Kong) on which licensed banks generally are open for business in Hong Kong
“Change of Control”	any person or persons, acting together, other than Hezhong, acquires control (more than 50% voting rights at general meeting/right to appoint majority members to the board of directors) of the Group; or the Group consolidates with or merges into or sells or transfers all or substantially all of the Group’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in any person or persons, acting together, other than Hezhong, acquiring control over the Group or the successor entity
“Company”	Zhongyu Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Connected Person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Conversion Price”	HK\$1.456 per Conversion Share (subject to adjustment)

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“Conversion Ratio”	the US\$ principal amount of each Convertible Bond translated into HK\$ divided by the initial Conversion Price or (if applicable) the Conversion Price in accordance with, and subject to adjustment pursuant to the reset provisions contained in the terms and conditions of the Convertible Bonds
“Conversion Right”	the right of a Bondholder to convert the Convertible Bonds into Conversion Shares
“Conversion Shares”	new Shares to be allotted and issued by the Company upon conversion of the Convertible Bonds
“Convertible Bonds”	the 1% convertible bonds in an aggregate principal amount of US\$40,000,000 (equivalent to approximately HK\$312,000,000) due 2012
“Delisting”	has the meaning ascribed to it under the paragraph headed “Principal Terms of the Convertible Bonds”
“Directors”	the directors (including the non-executive and independent non-executive directors) of the Company from time to time
“Early Redemption Amount”	for each US\$10,000 principal amount of the Convertible Bonds, is determined so that it represents for the Bondholder a gross yield of 5.42% per annum calculated on a semi-annual basis
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other matters, the creation and issue of the Convertible Bonds and the allotment and issue of the Conversion Shares
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	has the meaning ascribed thereto in the GEM Listing Rules
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Global Bond Certificate”	the global bond certificate representing the Convertible Bonds, which may be exchangeable for individual bond certificates
“Group”	the Company and its subsidiaries
“Henan Gas”	河南省煤層氣開發利用有限公司 (transliterated as Henan Province Coalbed Gas Development and Utilization Company Limited), a limited liability company established in Henan Province, the PRC

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“Hezhong”	Hezhong Investment Holding Company Limited, a company incorporated in the British Virgin Islands with limited liability and owned as to 52% by Mr. Wang Wenliang, as to 12% by Mr. Hao Yu, as to 12% by Mr. Li Weisong, as to 12% by Mr. Yang Jianguo and as to the remaining 12% by Mr. Li Zifeng. As at the Latest Practicable Date, Hezhong holds approximately 37.30% of the issued share capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party (Parties)”	independent third party (parties) who is (are) not Connected Person(s) of the Company and is (are) not connected with the directors, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associates or any person acting in concert (as defined in the Hong Kong Code on Takeover and Mergers) with Hezhong
“International Investment Securities”	any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities which are for the time being, or are intended to be or capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market.
“Issue Documents”	the Bond Subscription Agreement and the terms and conditions of the Convertible Bonds
“Last Trading Day”	23 May 2007, being the last trading day immediately prior to the suspension of trading in Shares on GEM pending the release of the announcement relating to, among other matters, the issue of the Convertible Bonds
“Latest Practicable Date”	31 May 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Maturity Date”	25 June 2012
“Minimum Reset Conversion Price”	has the meaning ascribed to it under the paragraph headed “Principal Terms of the Convertible Bonds”
“Placing”	the placing of the Placing Shares under the Placing Agreement

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“Placing Agent”	Morgan Stanley & Co. International plc as placing agent for the Placing. In so far as the Placing Agent, in performing its functions under the Placing Agreement, is “dealing in securities” as defined in Schedule 5 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), it shall only do so through its agent Morgan Stanley Asia Limited and only in circumstances such that none of the sub-provisos (I), (II), (III), (IV) and (V) in sub-paragraph (iv) to the definition of “dealing in securities” in Part 2 of Schedule 5 of the SFO are applicable.
“Placing Agreement”	the placing agreement dated 25 May 2007 entered into between the Company, Hezhong and the Placing Agent in relation to the Placing
“Placing Shares”	an aggregate of 279,000,000 existing Shares then held by Hezhong to be placed pursuant to the Placing Agreement
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	the subscribers to the Bond Subscription Agreement
“Subscription”	the subscription of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 25 May 2007 entered into between the Company and Hezhong in relation to the Subscription
“Subscription Shares”	an aggregate of 279,000,000 new Shares to be allotted and issued by the Company to Hezhong pursuant to the Subscription Agreement
“Tax Redemption Notice”	has the meaning ascribed to it under the paragraph headed “Principal Terms of the Convertible Bonds”

DEFINITIONS

“Very Substantial Acquisition”	the acquisition by Zhongyu Investment from Hezhong of (i) the entire issued share capital of Glory Path Investment Limited, a wholly-owned subsidiary of Hezhong, and (ii) certain shareholder’s loans owed to Glory Path Investment Limited by its subsidiaries pursuant to a sale and purchase agreement dated 2 May 2007 and supplemented by a supplemental agreement dated 16 May 2007 entered into between Zhongyu Gas Investment and Hezhong, as disclosed in the announcements of the Company dated 7 and 16 May 2007
“Volume Weighted Average Price per Share”	means, on any trading day of the Stock Exchange or, as applicable, the Alternative Stock Exchange, the price per Share as calculated by adding up the dollars traded on the Stock Exchange or, as applicable, the Alternative Stock Exchange, for every transaction (price times Shares traded) and divided by the total Shares traded for the day and (in the case of the Stock Exchange) shown as the volume weighted average trading price (under the command “VAP”) on the 8070 HK Equity VAP screen of Bloomberg for that date
“Zhongyu Investment”	Zhongyu Gas Investment Limited, a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 to RMB0.99. This exchange rate is for illustration purposes only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

For the purpose of this circular, unless otherwise indicated, conversion of US\$ into HK\$ is calculated at the approximate exchange rate of US\$1.00 to HK\$7.80. This exchange rate is for illustration purposes only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.



中裕燃气

中裕燃气控股有限公司
ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

Executive Directors:

Mr. Wang Wenliang (*Chairman*)
Mr. Hao Yu (*Chief Executive Officer*)
Mr. Lu Zhaoheng

Non-executive Directors:

Mr. Xu Yongxuan (*Vice-chairman*)
Mr. Wang Lei
Mr. Nicholas John Ashley Rigg

Independent non-executive Directors:

Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

Registered office:

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Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Suite 3016, 30th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

4 June 2007

To the Shareholders

Dear Sir or Madam,

**PROPOSED ISSUE OF
US\$40 MILLION 1% CONVERTIBLE BONDS DUE 2012**

INTRODUCTION

Reference is made to the announcement of the Company dated 28 May 2007 whereby the Board announced, among other matters, (i) the Placing of 279,000,000 Placing Shares by Hezhong through the Placing Agent at the placing price of HK\$1.165 per Placing Share to not less than six institutional, corporate or individual investor(s) who together with their respective ultimate beneficial owners are Independent Third Parties, (ii) the Subscription by Hezhong, the controlling Shareholder, of

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279,000,000 Subscription Shares (equals to the total number of Placing Shares) at the subscription price of HK\$1.165 per Subscription Share (equals to the placing price per Placing Share), and (ii) the proposed issue of the Convertible Bonds to five institutional Subscribers who together with their respective ultimate beneficial owners are Independent Third Parties.

The Placing was completed on 30 May 2007 and the Subscription is expected to be completed by 8 June 2007 where 279,000,000 Subscription Shares will be issued to Hezhong under the general mandate granted to the Directors at the annual general meeting of the Company on 24 April 2007.

The purpose of this circular is to provide you with further details regarding the proposed issue of the Convertible Bonds together with a notice of EGM at which resolutions will be proposed for approving, among other matters, a special mandate to be given to the Directors to allot and issue the Conversion Shares on full conversion of the Convertible Bonds.

ISSUE OF CONVERTIBLE BONDS

On 28 May 2007, the Company entered into the Bond Subscription Agreement with five independent Subscribers, which are all institutional investors, pursuant to which the Company has conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe and pay for the Convertible Bonds in the aggregate principal amount of US\$40,000,000 (equivalent to approximately HK\$312,000,000).

Arranger

The arranger to the placing of the Convertible Bonds is Morgan Stanley Asia Limited, which is an Independent Third Party.

Subscribers

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, each of the Subscribers and their ultimate beneficial owners are Independent Third Parties.

Conditions

The Subscribers shall only be under an obligation to subscribe and pay for the Convertible Bonds on the Bond Closing Date if:

- (i) at the duly convened EGM, a special mandate is granted to the Directors to issue the Conversion Shares on full conversion of the Convertible Bonds so as to enable the Company to perform its obligations thereunder has been obtained;
- (ii) an undertaking from Hezhong confirming that it will vote in favour of the resolutions to be proposed at the EGM has been delivered to the Subscribers;

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- (iii) there has, since the date of the Bond Subscription Agreement, been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Company or any of its subsidiaries that is material in the context of the issue of the Convertible Bonds;
- (iv) the representations and warranties in relation to, among others, financial conditions, business operations and general affairs of the Company made in the Bond Subscription Agreement are true, correct and accurate in all material respect on the date of the Bond Subscription Agreement and on each date on which they are deemed to be repeated and would be true, correct and accurate in all material respect if they were repeated on the Bond Closing Date with reference to the facts and circumstances then subsisting;
- (v) legal opinions dated the Bond Closing Date in relation to, among other matters, the legality and enforceability of the issue of the Convertible Bonds having been received by the Subscribers;
- (vi) closing certificates dated the Bond Closing Date signed by or on behalf of, respectively, the Company certifying there has been no adverse change in the condition (financial or otherwise) or general affairs of the Group having been received by the Subscribers;
- (vii) evidence that process agents to accept service of legal documents have been appointed by the relevant parties to the Issue Documents having been received by the Subscribers;
- (viii) a certificate dated three (3) Business Days prior to the Bond Closing Date from the Company, setting out the names and signatures of the persons authorised to sign, on behalf of the Company, the Issue Documents to which it is a party and any other documents is received by the Subscribers;
- (ix) the designation as eligible for clearance and settlement through Euroclear and Clearstream of the Convertible Bonds represented by the Global Bond Certificate is received by the Subscribers;
- (x) a copy, certified by a Director of (a) the Memorandum and Articles of Association of the Company; (b) the resolutions of the Board and/or any duly authorized committee thereof authorizing the execution of the Issue Documents and the entering into and performance of the transactions contemplated thereby; and (c) the resolution of the Shareholders approving the granting of the special mandate to the Directors to issue Shares that may be issuable on a full conversion of the Convertible Bonds are delivered to the Subscribers;
- (xi) a non-disposal undertaking from Hezhong and Wang Wenliang which is further elaborated under the heading “Bond Lock Up Undertaking” below is received by the Subscribers;
- (xii) the GEM Listing Committee grants the listing of and permission to deal in the Conversion Shares;

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(xiii) the Company has, prior to the Bond Closing Date, entered into an agency agreement pursuant to which a paying agent is appointed to act as common depositary and paying agent in respect of the Convertible Bonds and the terms and conditions of the Convertible Bonds had been amended to give effect to the appointment of such paying agent; and

(xiv) the Company has, prior to the Bond Closing Date, taken such other steps in relation to the Convertible Bonds as are reasonable and necessary in order to permit the Convertible Bonds to be held in the Euroclear and Clearstream systems.

Other than conditions (i), (xii), (xiii) and (xiv) above, each Subscriber may waive satisfaction of any of the conditions specified above.

Completion

Subject to the above conditions, completion of the placing of the Convertible Bonds is expected to take place on the Bond Closing Date.

Bond Lock Up Undertakings

Subject to (a) the issue of the Convertible Bonds pursuant to the Bond Subscription Agreement and the issue of the Conversion Shares, (b) the issue of the Shares pursuant to the Very Substantial Acquisition, (c) the granting of options, and the issue of Shares to holders of options granted or to be granted, under the Company's existing publicly disclosed employee share option scheme the terms of which comply with the GEM Listing Rules, (d) issue of Shares or securities of the Company as consideration other than cash in connection with an acquisition of interest in a company or business by any member of the Group, and (e) the issue of the Shares pursuant to the Subscription Agreement, for a period commencing from the date of the Bond Subscription Agreement to 180 days from the Bond Closing Date, neither the Company nor any of its subsidiaries nor any person acting on any of their respective behalves shall, without the prior written consent of the Subscribers:

- (i) allot, issue, offer to allot or issue, grant any option, right or warrant to subscribe, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) Share or any interests therein or any securities convertible into or exercisable or exchangeable for any such Shares or interests; or
- (ii) enter into any swap or similar agreement that transfers to another, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise; or
- (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

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Hezhong has also undertaken and agreed that it will not and Mr. Wang Wenliang has undertaken and agreed to procure Hezhong and all companies directly or indirectly controlled by him which hold any Shares or any interest therein not to, for a period commencing from the date of the Bond Subscription Agreement up to 180 days from the Bond Closing Date, except for the sale of the Placing Shares:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or shares in Hezhong or any interests therein or any securities convertible into or exercisable or exchangeable for any such Shares or shares or interests; or
- (ii) enter into any swap or similar agreement that transfers to another, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash; or otherwise; or
- (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

Principal Terms of the Convertible Bonds

The principal terms of the Convertible Bonds are summarised as follows:

Aggregate principal amount: US\$40,000,000 (equivalent to approximately HK\$312,000,000).

Coupon: 1% per annum, payable semi-annually in arrears.

Conversion period: Bondholder(s) may exercise Conversion Rights at any time after 40 days from the date of issue of the Convertible Bonds up to 3:30 p.m. on the fifth Business Day prior to the Maturity Date or, if the Convertible Bonds shall have been called for redemption before the Maturity Date, then up to 3:30 p.m. on a date no later than seven Business Days prior to the date fixed for redemption thereof.

Conversion Price: The initial Conversion Price is HK\$1.456 (subject to adjustments).

The initial Conversion Price represents:

- (i) a premium of approximately 13.75% over the closing price of HK\$1.28 per Share as quoted on GEM on the Last Trading Day;

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- (ii) a premium of approximately 19.34% over the average closing price of HK\$1.22 per Share for the 5 consecutive trading days as quoted on GEM up to and including the Last Trading Day;
- (iii) a premium of approximately 19.34% over the average closing price of HK\$1.22 per Share for the 10 consecutive trading days as quoted on GEM up to and including the Last Trading Day; and
- (iv) a premium of approximately 19.34% over the closing price of HK\$1.22 per Share as quoted on GEM on the Latest Practicable Date.

The Conversion Price is subject to adjustment upon the occurrence of certain prescribed dilution events including consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, distributions, rights issues of Shares or other securities, options over Shares, capital issue of Shares or other securities and modification of rights of Shares or securities having the effect of issuing the Shares or securities at a discount to the then market price, which are standard for the issue of a convertible bond. However, the Conversion Price may not be reduced so that, on conversion of the Convertible Bonds, Conversion Shares would fall to be issued at a discount to their nominal value or would require Conversion Shares to be issued below their par value or in any other circumstances not permitted by applicable law.

No adjustment will be made if unanimous approval is obtained from the Bondholders that there should be no adjustment.

Please refer to the appendix of this circular for summary provisions of the adjustment events.

Conversion Price Reset:

Provided that (i) the Conversion Price shall not be adjusted to less than 50% of the initial Conversion Price (the “**Minimum Reset Conversion Price**”) and (ii) that it may only be adjusted downwards, the initial Conversion Price will be adjusted downwards using a prescribed formula if the Volume Weighted Average Price per Share for each trading day during the 20 consecutive trading days preceding the first anniversary of the date of issue of the Convertible Bonds is less than the Conversion Price in effect.

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Based on the initial Conversion Price of HK\$1.456, the Minimum Reset Conversion Price will be HK\$0.728 per Conversion Share.

Conversion Shares:

Assuming the Convertible Bonds are converted in full at the initial Conversion Price of HK\$1.456 each, 214,285,714 Conversion Shares will be allotted and issued representing approximately 13.47% of the issued share capital of the Company as at the Latest Practicable Date and 11.87% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Assuming the Convertible Bonds are converted in full at the Minimum Reset Reference Price of HK\$0.728, 428,571,429 Conversion Shares will be allotted and issued representing approximately 26.94% of the issued share capital of the Company as at the Latest Practicable Date and 21.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Subject to certain provisos, fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof by the Company.

Ranking of Conversion
Shares:

The Conversion Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant conversion date.

Redemption at option of
the Company:

After the expiry of 30 calendar months from the date of issue of the Convertible Bonds but not less than seven Business Days prior to the Maturity Date, the Company may, redeem the Convertible Bonds in whole or in part at the Early Redemption Amount, together with the interest accrued to the redemption date, if the closing price of the Shares for any of the 20 out of the 30 consecutive trading days is at least 130% of the Early Redemption Amount divided by the applicable Conversion Ratio.

If the aggregate principal amount of the Convertible Bonds outstanding is less than 10 per cent. of the aggregate principal amount originally issued, the Company shall have the option to redeem such outstanding Convertible Bonds in whole but not in part at their Early Redemption Amount together with any accrued and unpaid interest.

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Redemption for taxation reasons:

At any time, the Company may, having given not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholder(s), redeem the outstanding Convertible Bonds in whole but not in part at the Early Redemption Amount on the date specified in such notice, together with interest accrued to the redemption date if (i) the Company has or will become obliged to pay additional amounts of taxes, duties, assessments or governmental charges as a result of any change in, or amendment to, the applicable laws or regulations and (ii) such obligation may not be avoided by the Company taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Convertible Bonds then due. If the Company gives the Tax Redemption Notice, each Bondholder will have the right to elect that its Convertible Bond(s) shall not be redeemed whereupon no additional amounts shall be payable in respect thereof and payment of all amounts shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted.

Redemption for Delisting:

If the Shares cease to be listed or admitted to trading on the Stock Exchange or any Alternative Stock Exchange where the Shares are traded (if applicable) (a "**Delisting**"), each Bondholder shall have the right at any time thereafter, at such Bondholder's option, to require the Company to redeem all or part of such Bondholder's Convertible Bonds at their Early Redemption Amount together with any accrued and unpaid interest.

Redemption at option of the Bondholder(s):

Following 24 calendar months after the date of issue of the Convertible Bonds, each Bondholder will have the right to require the Company to redeem in whole or in part the Convertible Bonds of such Bondholder at 110% of the principal amount the Convertible Bonds proposed to be redeemed.

Redemption for change of control:

Following the occurrence of a Change of Control, each Bondholder will have the right at such Bondholder's option, to require the Company to redeem in whole or in part such Bondholder's Convertible Bonds at their Early Redemption Amount together with any accrued and unpaid interest.

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Redemption on maturity:	Unless previously redeemed, converted or purchased and cancelled, each Convertible Bond shall be redeemed at 125% of their principal amount on the Maturity Date together with any accrued and unpaid interest.
Purchases at option of the Company:	The Company or any of the Company's subsidiaries may at any time and from time to time purchase the Convertible Bonds at any price in the open market or otherwise in compliance with applicable laws and regulations. Such Convertible Bonds may, at the option of the Company or the relevant subsidiary, be held, resold or cancelled.
Voting rights:	Bondholder(s) will not have any right to attend or vote at any general meeting of Shareholders by virtue of them being Bondholder(s).
Listing:	The Convertible Bonds will not be listed on any stock exchange. Application will, however, be made to the Stock Exchange for the listing of, and permission to deal in the Conversion Shares.
Form of the Bonds:	Registered.
Denomination:	US\$10,000 (equivalent to approximately HK\$78,000) per Convertible Bond.
Status:	The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at pari passu and without preference or priority among themselves and with all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Company.
Negative pledge:	So long as any Convertible Bonds remains outstanding, the Company will not create or permit to subsist, and the Company will procure that none of its subsidiaries will create or permit to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest securing any obligation of any person upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure any International Investment Securities or to secure

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any guarantee of or indemnity in respect of any International Investment Securities and the Company will procure that none of its subsidiaries will guarantee any International Investment Securities unless, at the same time or prior thereto, the Company's obligations under the Convertible Bonds (i) are secured equally and rateably therewith (or so guaranteed), or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved in writing by holders of a majority in aggregate principal amount of the Convertible Bonds then outstanding.

Transfer: The Convertible Bonds are transferable at any time.

Yield to maturity: 5.42% per annum.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company as at the Latest Practicable Date, immediately after completion of the Subscription (for illustration purposes), and upon allotment and issue of the Conversion Shares at the initial Conversion Price and the Minimum Reset Reference Price are as follows:

Name of Shareholders	As at the Latest Practicable Date		Immediately after completion of the Subscription (for illustration purposes)		Immediately after allotment and issue of the Conversion Shares at the initial Conversion Price		Immediately after allotment and issue of the Conversion Shares at the Minimum Reset Conversion Price	
	<i>Number of Shares held</i>	<i>(approx.) %</i>	<i>Number of Shares held</i>	<i>(approx.) %</i>	<i>Number of Shares held</i>	<i>(approx.) %</i>	<i>Number of Shares held</i>	<i>(approx.) %</i>
Hezhong	593,505,542	37.30	872,505,542	46.66	872,505,542	41.86	872,505,542	37.96
The Subscribers <i>(Note)</i>	—	—	—	—	214,285,714	10.28	428,571,429	18.64
Public	<u>997,520,000</u>	<u>62.70</u>	<u>997,520,000</u>	<u>53.34</u>	<u>997,520,000</u>	<u>47.86</u>	<u>997,520,000</u>	<u>43.40</u>
Total	<u>1,591,025,542</u>	<u>100.00</u>	<u>1,870,025,542</u>	<u>100.00</u>	<u>2,084,311,256</u>	<u>100.00</u>	<u>2,298,596,971</u>	<u>100.00</u>

Note: The Subscribers, individually, will be regarded as public Shareholders under the GEM Listing Rules.

LETTER FROM THE BOARD

REASONS FOR THE PLACING AND THE SUBSCRIPTION AND THE ISSUE OF THE CONVERTIBLE BONDS

The Group is principally engaged in (i) the exploration, development, production and sale of coalbed methane in the PRC; and (ii) the development, construction and operation of natural gas projects in the PRC, which includes the design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances.

Since late 2006 and the beginning of 2007, the Group has been active in its pursuit for furthering of its business by establishment of joint ventures, acquisition of companies whose principal businesses are in line with that of the Group and entering into various memoranda of understanding with Independent Third Parties for establishing strategic cooperations. By an announcement dated 22 January 2007, the Company announced the entering into of a joint venture arrangement with Henan Gas by establishing a joint venture company, which will be owned as to 75% by the Group and the remaining 25% by Henan Gas for the exploration, development, production in Jiaozuo City, Henan Province, the PRC and sale of coalbed gas. The initial capital to be contributed by the Group amounts to RMB 45,000,000 (equivalent to approximately HK\$45,455,000). By a further announcement dated 11 April 2007, the Company further announced that the Group and Henan Gas have agreed to expand the scope of the joint venture arrangement to cover mine areas legally owned and controlled by Henan Gas situated in Jiaozuo City, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima and Yongxia, Henan Province, the PRC on an exclusive basis.

By another announcement of the Company dated 7 May 2007, the Company announced the entering into of the Very Substantial Acquisition with Hezhong for the acquisition of, among others and in essence, equity interests in three enterprises established in the PRC engaging in the principal business of construction, operation and management of gas projects in respectively Jiyuan City, Luohe City and Jiaozuo City in the PRC, which businesses are in line with the principal business of the Group. As disclosed in the said announcement and as supplemented by an announcement of the Company dated 16 May 2007, the total consideration for the Very Substantial Acquisition is RMB300,000,000 (equivalent to approximately HK\$303,030,000). Zhongyu Investment is required to pay a fixed cash consideration of RMB200,000,000 (equivalent to approximately HK\$202,020,000) and may choose to increase the cash portion of the total consideration by paying an additional cash amount of up to RMB22,504,384 (equivalent to approximately HK\$22,732,000) and the balance of not less than RMB77,495,616 (equivalent to approximately HK\$78,278,000) by the allotment and issue of 72,480,000 new Shares at the issue price of HK\$1.08 per such new Share.

In addition, the Group has also announced the entering into of various non-binding memoranda of understanding since early this year to lay out the basic manner of strategic cooperation with Independent Third Parties with the intention to develop its business ventures, especially in the field of coalbed methane development and utilisation.

LETTER FROM THE BOARD

Given the principal lines of businesses of the Group and in view of the above business developments, having a strong financial position is essential for and no doubt advantageous to the Group to achieve its business objectives.

Taking into account the positive market sentiment and conditions, the Board is of the view that it is an appropriate time to conduct its fund raising activities so as to strengthen its working capital position in meeting its financial requirements. Having considered the duration of the Convertible Bonds, the relatively low coupon rate and the redemption/call options that the Company may enjoy, the issue of the Convertible Bonds provides the Company financial flexibility and on top of the Placing, upon conversion, the Company's shareholder base may further be broaden, representing a good mixture of strategic and public investors.

In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Bond Subscription Agreement (including the terms of the Convertible Bonds) to be fair and reasonable and are in the interests of the Company and Shareholders as a whole.

USE OF PROCEEDS

The net proceeds (net of certain expenses and fees) from the issue of the Convertible Bonds are estimated to be approximately US\$38,400,000 (equivalent to approximately HK\$299,520,000), which are intended to be applied for the development and operation of the abovementioned coalbed methane projects and/or for future investment in projects of a similar kind in the PRC.

As at the Latest Practicable Date, other than those investments which have been disclosed previously, the Company does not have any other investment projects or matters that are required to be disclosed under Rule 17.10 of the GEM Listing Rules.

FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST 12 MONTHS

On 1 March 2007, the Company entered into a placing and subscription agreement with Hezhong as vendor and First Shanghai Securities Limited as placing agent for (i) Hezhong's placing, through First Shanghai Securities Limited, of an aggregate of 265,000,000 Shares then held by it to not less than six places who are Independent Third Parties at a placing price of HK\$0.42 per Share on a fully-underwritten basis; and (ii) the subscription by Hezhong of the same number of Shares to be placed at the same subscription price as that of the placing price therefor. Out of the net proceeds of approximately HK\$108 million from such subscription, approximately HK\$45 million has been applied, as intended, for the Group's capital contribution in a joint venture company in Henan Province of the PRC and the remaining balance of approximately HK\$63 million remains un-utilised. The Group intended to apply the remaining balance thereof as to approximately HK\$42 million for financing further investment in other coalbed methane projects in the PRC and the balance of approximately HK\$21 million to be used as general working capital of the Group.

LETTER FROM THE BOARD

On 25 May 2007, the Company entered into the Placing Agreement and the Subscription Agreement for (i) Hezhong's placing, through the Placing Agent, of an aggregate of 279,000,000 Placing Shares then held by it to not less than six institutional, corporate or individual investor(s) who together with their respective ultimate beneficial owners are Independent Third Parties at a placing price of HK\$1.165 per Placing Share on a fully-underwritten basis; and (ii) the Subscription by Hezhong of the same number of Shares sold at the subscription price which is same as that of the placing price therefor. Out of the net proceeds from the issue of the Subscription Shares of approximately HK\$310,000,000, approximately HK\$225,000,000 will be used for the satisfaction of the cash portion of the consideration for the Very Substantial Acquisition and the balance of approximately HK\$85,000,000 will be used for the development and operation of the abovementioned coalbed methane projects and/or financing further investment in other coalbed methane projects in the PRC.

Save as disclosed, the Company had not conducted any other fund raising activities involving issue of its securities in the 12 months immediately preceding the Latest Practicable Date.

EGM

Set out on pages 25 and 26 of this circular is a notice convening the EGM to be held at Suite 3016, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Thursday, 21 June 2007 at 11:00 a.m. at which ordinary resolutions will be proposed to consider and approve, among other matters, the issue of the Convertible Bonds and the granting of a special mandate to the Directors to allot and issue the Conversion Shares on full conversion of the Convertible Bonds.

As at the Latest Practicable Date, no Shareholders would have any interests or benefits in the issue of the Convertible Bonds which the other Shareholders do not share and as such, no Shareholders will be required to abstain from voting at the EGM. Hezhong, a controlling Shareholder holding approximately 37.30% and 46.66% of the equity interest in the Company as at the Latest Practicable Date and upon completion of the Subscription respectively has undertaken to vote in favour of the resolutions to be proposed at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

LETTER FROM THE BOARD

PROCEDURE FOR DEMANDING A POLL

The following sets out the procedures by which Shareholders may demand a poll at the EGM.

According to article 66 of the articles of association of the Company, a resolution put to the vote at a meeting shall be decided on a show of hands, unless a poll is demanded (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

A demand by a person as proxy of a Shareholder or in the case of Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Bond Subscription Agreement (including the terms of the Convertible Bonds) to be fair and reasonable and are in the best interests of the Company and Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions regarding, among other matters, the issue of the Convertible Bonds and the granting of a special mandate to the Directors to allot and issue the Conversion Shares on full conversion of the Convertible Bonds to be proposed at the EGM.

LETTER FROM THE BOARD

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (2) there are no other matters the omission of which would make any statement in this circular misleading; and
- (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

By order of the Board
Zhongyu Gas Holdings Limited
Wang Wenliang
Chairman

APPENDIX

The following is a summary provision of the events (in addition to the reset provisions referred to under the heading “Principal Terms and the Convertible Bonds — Conversion Price Reset” in the Letter from the Board) upon the happening of which the Conversion Price will be adjusted:

(A) Consolidation, Subdivision or Reclassification

If and whenever there shall be an alteration to the number of issued Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted.

(B) Capitalisation of Profits or Reserves:

- (i) If and whenever the Company shall issue any Shares credited as fully paid-up to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including Shares paid-up out of distributable profits or reserves and/or share premium account issued, save where Shares are issued in lieu of the whole or any part of a specifically declared cash dividend, being a dividend which the Shareholders concerned would or could otherwise have received (a “**Scrip Dividend**”) and which would not have constituted a Capital Distribution (as defined below), the Conversion Price will be adjusted.
- (ii) In the case of an issue of Shares by way of a Scrip Dividend which would not have constituted a Capital Distribution, the Conversion Price will be adjusted.

The term “**Capital Distribution**” is defined in the terms and conditions of the Convertible Bonds as meaning: (i) any distribution of assets in specie by the Company for any financial period, whenever paid or made and however described, and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid-up (other than Shares credited as fully paid-up) by way of capitalisation of reserves, and (ii) any dividend or distribution of any kind by the Company for any financial period, whenever paid and however described.

(C) Capital Distribution

If and whenever the Company shall pay or make any Capital Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under paragraph (B) above), the Conversion Price will be adjusted.

(D) Rights Issue of Shares or Options over Shares

If and whenever the Company shall issue any Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than the Current Market Price (as defined below) per Share on the last trading day preceding the date of the announcement of the terms of such issue or grant, the Conversion Price will be adjusted.

APPENDIX

Subject to certain provisos, the terms “**Current Market Price**” means, in respect of a Share at a particular date, the average of the Closing Prices quoted by the Stock Exchange or, as applicable the Alternative Stock Exchange, for one Share (being a Share carrying full entitlement to dividend) for the 20 consecutive trading days ending on the trading day immediately preceding such date.

(E) Rights Issue of Other Securities

If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares), the Conversion Price will be adjusted.

(F) Issues at less than Current Market Price

If and whenever the Company shall issue (otherwise than as mentioned in paragraph (D) above) wholly for cash any Shares (other than Shares issued (i) in connection with the offering of Shares concurrent with the offering by the Company of the Convertible Bonds, (ii) on the exercise of Conversion Rights or (iii) on the exercise of any other existing rights of conversion into, or exchange or subscription for, Shares) or if and whenever the Company shall issue or grant (otherwise than as mentioned in paragraph (D) above) options, warrants or other rights to subscribe or purchase Shares (including securities that are convertible into Shares), in each case, at a price per Share which is less than the Current Market Price on the last trading day preceding the day of announcement of such issue or grant, the Conversion Price will be adjusted.

(G) Other Issues at less than Current Market Price

Save in the case of an issue of securities arising from a conversion or exchange of other existing securities in accordance with the terms applicable to such existing securities, if the Company or any of its subsidiaries (otherwise than as mentioned in paragraphs (D), (E) or (F) above) or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) by any other company, person or entity shall issue wholly for cash any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than the Current Market Price on the last trading day immediately preceding the day of announcement of the terms of issue of such securities, the Conversion Price will be adjusted.

(H) Modification of Rights of Conversion etc

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in paragraph (G) above (other than in accordance with the existing terms applicable to such securities) so that the consideration per Share

(for the number of Shares available on conversion, exchange or subscription following the modification) is less than the Current Market Price on the last trading day immediately preceding the day of announcement of the proposals for such modification, the Conversion Price will be adjusted.

(I) Other Offers to Shareholders

If and whenever the Company or any of its subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer by or on behalf of the Company or any of its subsidiaries or such other company, person or entity pursuant to an offer in which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (D), (E), (F) or (G) above), the Conversion Price will be adjusted.

(J) Analogous Events and Other Events

If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in the adjustment to Conversion Price provisions of the terms and conditions of the Convertible Bonds, the Company shall at its own expense request an independent investment bank of international repute selected by the Company to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof.

(K) Exemptions from Adjustments

Notwithstanding the above provisions, no adjustment will be made to the Conversion Price if the Company (i) issues Shares upon the exercise of any existing conversion rights as at the Bond Closing Date attached to securities convertible into Shares or upon the exercise of any existing rights as at the Bond Closing Date (including any conversion of the Bond) to acquire Shares or (ii) issues Shares or other securities of the Issuer or any of its Subsidiaries pursuant to options granted to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share option scheme established in accordance with the GEM Listing Rules.

In addition, No adjustment will also be made to the Conversion Price if unanimous approval in writing is obtained from the Bondholders that there should be no adjustment.

(L) Other Provisions relating to Conversions

- (i) On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest one Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made shall be carried forward and taken into account in any subsequent adjustment.

APPENDIX

- (ii) No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in paragraph (A) above or to correct a manifest error.

- (iii) The Conversion Price may not be reduced so that, on conversion of the Convertible Bonds, Conversion Shares would fall to be issued at a discount to their nominal value or would require Conversion Shares to be issued below their par value or in any other circumstances not permitted by applicable law.



中裕燃气

中裕燃气控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of the shareholders of Zhongyu Gas Holdings Limited (the “Company”) will be held at Suite 3016, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Thursday, 21 June 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** subject to (a) the fulfillment or waiver of the conditions set out in the subscription agreement (the “**Bond Subscription Agreement**”) dated 28 May 2007 and entered into between the Company and the five subscribers thereto (the “**Subscribers**”) in respect of the issue by the Company of the one (1) per cent. convertible bonds in an aggregate principal amount of US\$40,000,000 (the “**Bonds**”) (a copy of the Bond Subscription Agreement having been produced to the EGM and marked “A” and initialed by the chairman of the EGM for the purpose of identification); and (b) the Bond Subscription Agreement not being terminated in accordance with its terms,

- (i) the Bond Subscription Agreement and all transactions contemplated thereunder and all other matters in connection therewith and incidental thereto be and are hereby generally and unconditionally approved, confirmed and ratified in all respects;
- (ii) the issue and the creation of the Bonds to the Subscribers (the “**Bond Issue**”) be and are hereby generally and unconditionally approved in all respects;
- (iii) the directors of the Company (the “**Directors**”) be and are hereby generally and specifically authorised to allot and issue such number of new shares (the “**Conversion Shares**”) of par value of HK\$0.01 each in the capital of the Company as may be required upon the exercise of the conversion rights attaching to the Bonds in accordance with the terms and conditions of the Bond Subscription Agreement and the Bonds; and

NOTICE OF EGM

(iv) the Directors be and are hereby generally and unconditionally authorised to do all such acts and things as they consider necessary or expedient in connection with and to give effect to the Bond Issue pursuant to the terms and conditions of the Bond Subscription Agreement and the Bonds, including the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Bonds, and all matters contemplated thereunder.”

By order of the Board
Zhongyu Gas Holdings Limited
Wang Wenliang
Chairman

Hong Kong, 4 June 2007

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business:

Suite 3016, 30th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 4 June 2007. Such form is also available at the website of the Stock Exchange at <http://www.hkex.com.hk>. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the branch share registrar and transfer office of the Company in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should you so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.