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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)

**PLACING OF EXISTING SHARES  
AND  
SUBSCRIPTION OF NEW SHARES;  
PROPOSED ISSUE OF US\$40 MILLION 1% CONVERTIBLE  
BONDS DUE 2012;  
AND  
RESUMPTION OF TRADING**

**Share Placing Agent**

**Morgan Stanley**

**Morgan Stanley & Co. International plc**

**PLACING AND SUBSCRIPTION OF SHARES**

On 25 May 2007, Hezhong, the controlling Shareholder, entered into the Placing Agreement with the Placing Agent and the Company, pursuant to which the Placing Agent has conditionally agreed to place, on a fully-underwritten basis, the Placing Shares legally and beneficially owned by Hezhong to not less than six independent Placees who will be institutional, corporate or individual investor(s) at a price of HK\$1.165 per Placing Share. On the same day, the Company further entered into the Subscription Agreement with Hezhong for the conditional issue and subscription of the Subscription Shares at a price of HK\$1.165 per Subscription Share. The total number of Subscription Shares equals to the total number of Placing Shares and the subscription price of HK\$1.165 also equals to the Placing Price.

The Placing Shares (or the Subscription Shares) represent approximately 17.55% of the issued share capital of the Company as at the date of this announcement and approximately 14.93% of the Company's enlarged issued share capital immediately after completion of the Placing and Subscription.

Changes of the shareholding of Hezhong in the Company are set out under the heading “Effect on Shareholding Structure of the Company” below.

Completion of the Placing and Subscription is not conditional on the issue of the Convertible Bonds referred to below.

#### **ISSUE OF CONVERTIBLE BONDS**

On 28 May 2007, the Company entered into the Bond Subscription Agreement with five independent Subscribers 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 USD40,000,000 (equivalent to approximately HK\$312,000,000). Assuming full conversion of the Convertible Bonds at the initial Conversion Price (subject to adjustment), the Convertible Bonds will be convertible into 214,285,714 Conversion Shares, representing approximately 13.48% of the issued share capital of the Company as at the date of this announcement and approximately 11.88% of the issued share capital of the Company as enlarged by the Conversion Shares. Assuming full conversion of the Convertible Bonds at the Minimum Reset Conversion Price, the Convertible Bonds will be convertible into 428,571,429 Conversion Shares, representing approximately 26.95% of the issued share capital of the Company as at the date of this announcement and approximately 21.23% of the issued share capital of the Company as enlarged by the Conversion Shares.

Changes of the shareholding structure of the Company are set out under the heading “Effect on Shareholding Structure of the Company” below.

The Placing and Subscription and the issue of the Convertible Bonds are not conditional on each other.

*As the Placing, Subscription and the issue of the Convertible Bonds are subject to the fulfillment of a number of conditions and may or may not proceed to completion, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.*

#### **RESUMPTION OF TRADING**

At the request of the Company, dealings in the Shares on GEM have been suspended from 9:30 a.m. on 25 May 2007 pending the publication of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 29 May 2007.

#### **PLACING OF EXISTING SHARES**

On 25 May 2007, Hezhong, the controlling Shareholder, entered into the Placing Agreement with the Placing Agent and the Company, pursuant to which the Placing Agent has agreed to place, on a fully-underwritten basis, the Placing Shares legally and beneficially owned by Hezhong to not less than six Placees at a price of HK\$1.165 per Placing Share.

## **Placing Agent and Placees**

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, the Placing Agent is an Independent Third Party. The Placing Agent will receive a placing commission from the Placing which was arrived at after arm's length negotiations between Hezhong, the Company and the Placing Agent with reference to the market practice and conditions.

The Placing Shares will be placed to not less than six institutional, corporate and/or individual investor(s) who together with their respective ultimate beneficial owners will be Independent Third Parties. It is expected that none of the Placees will become a substantial Shareholder immediately after completion of 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.

## **Number of Placing Shares**

279,000,000 existing Shares legally and beneficially owned by Hezhong will be placed pursuant to the Placing Agreement, representing approximately 17.55% of the issued share capital of the Company as at the date of this announcement and approximately 14.93% of the Company's enlarged issued share capital immediately after completion of the Placing and Subscription.

The shareholding structure of the Company before and after the completion of the Placing is set out under the heading "Effects on Shareholding Structure of the Company" below.

## **Placing price**

The Placing Price of HK\$1.165 per Placing Share represents:

- (i) a discount of approximately 8.98% to the closing price of HK\$1.28 per Share as quoted on GEM on the Last Trading Day, being the date of the Placing Agreement;
- (ii) a discount of approximately 4.51% to 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; and
- (iii) a discount of approximately 4.51% to 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.

The Placing Price was determined and negotiated on an arm's length basis among Hezhong, the Company and the Placing Agent with reference to the closing prices as shown above. The Directors (including the independent non-executive Directors) consider that the Placing Price is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

After taking into account all related expenses of the Placing and the Subscription payable by the Company, the net Placing Price is approximately HK\$1.11 per Placing Share.

### **Completion of the Placing**

Completion of the Placing is conditional upon the following:

- (i) there shall not have occurred any breach of, or any event rendering untrue or inaccurate, any of the representations, warranties or undertakings under the Placing Agreement;
- (ii) trading of any securities of the Company not being suspended on any exchange or in any over the counter market, other than being suspended as a result of the Placing;
- (iii) trading generally not having been suspended or materially limited on, or by, any of the stock exchanges of Hong Kong or New York that, in the Placing Agent's judgment, is material and adverse and which, singly or together with any other conditions specified herein, makes it, in the Placing Agent's judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Placing Shares on the terms and in the manner contemplated in the Placing Agreement;
- (iv) there not having occurred a material disruption in securities settlement, payment or clearance services in Hong Kong, the United States or the PRC that, in the Placing Agent's judgment, is material and adverse and which, singly or together with any other conditions specified herein, makes it, in the Placing Agent's judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Placing Shares on the terms and in the manner contemplated in the Placing Agreement;
- (v) there not having been declared any moratorium on commercial banking activities by Hong Kong, PRC or Federal or New York State authorities that, in the Placing Agent's judgment, is material and adverse and which, singly or together with any other conditions specified herein, makes it, in the Placing Agent's judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Placing Shares on the terms and in the manner contemplated in the Placing Agreement; or
- (vi) there not having occurred any outbreak or escalation of hostilities, declaration of a national emergency or war, or any change in financial markets, currency exchange rates or controls or any calamity or crisis that, in the Placing Agent's judgment, is material and adverse and which, singly or together with any other conditional events, makes it, in the Placing Agent's judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Placing Shares on the terms and in the manner contemplated in the Placing Agreement;

(vii) the Subscription Agreement having been entered into by the parties thereto on the date of the Placing Agreement and not subsequently having been revoked, terminated or modified; and

(viii) receipt by the Placing Agent of:

- (a) one signed original of the legal opinion from Hezhong's British Virgin Islands legal counsel opining on Hezhong's due incorporation and valid existence, corporate power and authority to enter into and perform the Placing Agreement and the legal and binding effect and enforceability of the Placing Agreement against Hezhong;
- (b) certified copies of the board minutes of the Company and Hezhong dated the date of the Placing Agreement approving the Placing and the Subscription;
- (c) a certified copy of the Subscription Agreement; and
- (d) one original executed lock-up undertaking dated the date of the Placing Agreement in favour of the Placing Agent from Mr. Wang Wenliang, the chairman of the Company and the controlling shareholder of Hezhong, details of which are set out under the heading "Lock-Up Undertakings" below

each in a form satisfactory to the Placing Agent.

Completion of the Placing will take place on the Business Day after the day on which all conditions set out above shall have been met or waived by the Placing Agent, but in any event no later than 30 May 2007.

### **Rights of the Placing Shares**

The Placing Shares will be sold free of any liens, charges, encumbrances and other third party rights and will be entitled to receive all future dividends and distributions which may be declared, made or paid by reference to a record date falling after the date of the completion of the Placing.

### **Lock Up and Other Undertakings**

Pursuant to the Placing Agreement, other than the sale of the Placing Shares, Hezhong has undertaken to the Placing Agent that, from the date of the Placing Agreement until (and including) the date being 180 days after the completion of the Placing Agreement, it will not (without the prior written consent of the Placing Agent) (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 any Shares 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, or announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

Pursuant further to the Placing Agreement, the Company undertakes to the Placing Agent, and Hezhong undertakes to the Placing Agent to procure the Company not to from the date of the Placing Agreement and until (and including) the date being 180 days after completion of the Placing (without prior written consent of the Placing Agent) (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 any Shares 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, or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above, provided that the Company may issue Shares to (i) Hezhong pursuant to the Very Substantial Acquisition and the Subscription Agreement, (ii) the issue of new Shares pursuant to pre-existing options, warrants or convertible securities carrying rights to subscribe for new Shares, (iii) the issue of new Shares as consideration in substitution for cash in connection with acquisition of companies or businesses by the Group, (iv) issue of the Convertible Bonds and new Shares upon conversion of the Convertible Bonds pursuant to the Bond Subscription Agreement, and (v) the granting of any options and/or issue of Shares upon exercise of any options granted under the existing or any other share option scheme of the Company in accordance with the GEM Listing Rules.

In consideration of the entering into of the Placing Agreement, except for the sale of the Placing Shares, Mr. Wang Wenliang, the controlling shareholder of Hezhong and the chairman of the Company, has also undertaken to the Placing Agent that, from the date of the Placing Agreement until (and including) the date being 180 days after the completion of the Placing Agreement, he will not himself and will procure companies under his control not to (without the prior written consent of the Placing Agent) (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 any Shares or any other shares, securities or interests in the Company or Hezhong or any securities convertible into or exercisable or exchangeable for any such Shares, shares securities, or interests other than the Placing Shares, 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, or announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

Pursuant to the Placing Agreement, Hezhong has undertaken not to acquire Shares under the Very Substantial Acquisition to the extent that such acquisition may result in an obligation arising under Rule 26.1 of the Hong Kong Code on Takeover and Mergers for the making of a mandatory general offer for the Shares.

## **SUBSCRIPTION OF NEW SHARES**

On 25 May 2007, the Company further entered into the Subscription Agreement with Hezhong for the conditional issue and subscription of the Subscription Shares at a price of HK\$1.165 per Subscription Share.

## **Number of Subscription Shares**

279,000,000 new Shares will be subscribed for by Hezhong pursuant to the Subscription Agreement, which is equivalent to the total number of Placing Shares sold by Hezhong, representing approximately 17.55% of the issued share capital of the Company as at the date of this announcement and approximately 14.93% of the Company's enlarged issued share capital immediately after completion of the Subscription.

The Subscription Shares will be allotted and issued under a general mandate granted to the Directors at the annual general meeting of the Company held on 24 April 2007. Under such mandate, which has not been utilised prior to the Subscription Agreement, the Company is authorised to allot, issue and deal with up to 318,037,108 unissued Shares.

The shareholding structure of the Company before and after the completion of the Subscription is set out under the heading "Effects on Shareholding Structure of the Company" below.

## **Subscription Price**

HK\$1.165 per Subscription Share, which is equivalent to the Placing Price, was determined and negotiated on an arm's length basis between the Company and Hezhong with reference to the Placing Price. The aggregate nominal value of the Subscription Shares is HK\$2,790,000.

The Board considers the Subscription Price to be in the interests of the Company and is fair and reasonable so far as the Shareholders are concerned. After taking into account all related expenses of the Placing and the Subscription payable by the Company, which is further elaborated under the heading "Reasons for the Placing and the Subscription and use of proceeds" below, the net Subscription Price is approximately HK\$1.11 per Subscription Share.

## **Conditions precedent**

The Subscription is conditional upon:

- (i) the GEM Listing Committee granting the listing of, and permission to deal in, the Subscription Shares; and
- (ii) completion of the Placing.

None of the above conditions may be waived by the Company or Hezhong. In the event that the conditions of the Subscription are not fulfilled in full within 14 days from the date of the Subscription Agreement, the Company and Hezhong will take all necessary steps so that completion of the Subscription can take place as soon as practicable thereafter.

## **Completion of the Subscription**

Completion of the Subscription will take place within two Business Days after the date upon which the last condition of the Subscription has been satisfied provided that it shall take place on a date no later than a date falling 14 days after the date of the Placing Agreement.

## **Ranking and rights of the Subscription Shares**

The Subscription Shares (when allotted, issued and fully paid) will rank pari passu with the Shares in issue on the date of allotment and issue of the Subscription Shares. Holders of fully-paid Subscription Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid by reference to a record date falling after the date of allotment of the Subscription Shares.

## **Application for listing**

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on GEM.

## **ISSUE OF CONVERTIBLE BONDS**

On 28 May 2007, the Company entered into the Bond Subscription Agreement with five 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 USD40,000,000 (equivalent to approximately HK\$312,000,000).

## **Arranger**

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 obligation to subscribe and pay for the Convertible Bonds on the Bond Closing Date if:

- (i) at the duly convened EGM, a special mandate to be granted to the Directors of the Company 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;
- (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 obtained;
- (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;
- (vii) evidence that process agents to accept service of legal documents have been appointed by the relevant parties to the Issue Documents;
- (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 to be delivered by the Company;
- (ix) the designation as eligible for clearance and settlement through Euroclear and Clearstream of the Convertible Bonds represented by the Global Bond Certificate;
- (x) the delivery to the Subscribers of 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 of the Company 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;
- (xi) a non-disposal undertaking from Hezhong and Wang Wenliang which is further elaborated under the heading “Bond Lock Up Undertaking” below;
- (xii) the GEM Listing Committee granting the listing of and permission to deal in the Conversion Shares;
- (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 depository 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.

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 summarized as follows:

Aggregate principal amount: USD40,000,000 (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;
- (ii) a premium of approximately 19.34% to 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; and
- (iii) a premium of approximately 19.34% to 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.

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.

**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.

Based on the initial Conversion Price of HK\$1.456, the Minimum Reset Reference 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 13.48% of the issued share capital of the Company as at the date of this announcement and 11.88% 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 26.95% of the issued share capital of the Company as at the date of this announcement and 21.23% 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.

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 the Company to redeem all or part of such Bondholder's Convertible 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.
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:	USD10,000 (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 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 date of this announcement, immediately before and after completion of the Placing and the Subscription, 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 date of this announcement		Immediately after completion of Placing but before Subscription		Immediately after completion of Placing and Subscription		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	
	Number of Shares held	(approx.) %	Number of Shares held	(approx.) %	Number of Shares held	(approx.) %	Number of Shares held	(approx.) %	Number of Shares held	(approx.) %
Hezhong	872,505,542	54.87	593,505,542	37.32	872,505,542	46.68	872,505,542	41.88	872,505,542	37.97
The Placees (Note)	—	—	279,000,000	17.55	279,000,000	14.93	279,000,000	13.39	279,000,000	12.14
The Subscribers (Note)	—	—	—	—	—	—	214,285,714	10.29	428,571,429	18.65
Public	<u>717,680,000</u>	<u>45.13</u>	<u>717,680,000</u>	<u>45.13</u>	<u>717,680,000</u>	<u>38.39</u>	<u>717,680,000</u>	<u>34.44</u>	<u>717,680,000</u>	<u>31.22</u>
Total	<u>1,590,185,542</u>	<u>100.00</u>	<u>1,590,185,542</u>	<u>100.00</u>	<u>1,869,185,542</u>	<u>100.00</u>	<u>2,083,471,256</u>	<u>100.00</u>	<u>2,297,756,971</u>	<u>100.00</u>

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



## **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 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, Zhongyu Investment is required to pay a fixed cash consideration of RMB200,000,000 (equivalent to approximately HK\$202,020,000) under the Very Substantial Acquisition, and at the option of the Group, it may choose to pay the remaining balance of the consideration of RMB100,000,000 (equivalent to approximately HK\$101,010,000) (i) by cash for an amount 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 or (ii) by the allotment and issue of 93,726,000 new Shares as originally agreed at the same issue price of HK\$1.08. As disclosed in the said announcements, the Group intended to fund the cash consideration payable under the Very Substantial Acquisition from debt or equity financing to be determined by the Board.

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 cooperations with Independent Third Parties with the intention to develop its business ventures, especially in the field of coalbed methane development and utilisation.

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. The Board considered that the Placing and the Subscription provide an efficient and cost effective way for the Company to raise capital for the satisfaction of the cash portion of the consideration for the Very Substantial Acquisition and for capital requirements for coalbed methane development while broadening its shareholders base. 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 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 Placing Agreement, the Subscription Agreement and 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**

On the basis of the Placing Price (or the subscription price per Subscription Share), the gross proceeds from the issue of the Subscription Shares will amount to HK\$325,035,000. The Company will bear the expenses incurred in connection with the Placing and Subscription and taking into account the estimated expenses for the Placing and Subscription, including the placing commission, transaction levies and trading fees, legal costs, printing and miscellaneous expenses, the net proceeds from the issue of the Subscription Shares is estimated to be approximately HK\$310,000,000, of which, 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.

The net proceeds (net of certain expenses and fees) from the issue of the Convertible Bonds are estimated to be approximately USD38,400,000 (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 date of this announcement, 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 placees 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.

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 date of this announcement.

*As the Placing and Subscription and the issue of the Convertible Bonds are subject to the fulfillment of a number of conditions and may or may not proceed to completion, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.*

## **SUSPENSION AND RESUMPTION OF DEALINGS IN THE SHARES**

At the request of the Company, dealings in the Shares on GEM has been suspended from 9:30 a.m. on 25 May 2007 pending the publication of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on GEM will effect from 9:30 a.m. on 29 May 2007.

## **BOARD OF DIRECTORS**

As at the date hereof, the executive Directors are Mr. Wang Wenliang, Mr. Hao Yu and Mr. Lu Zhaoheng. The non-executive Directors are Mr. Xu Yongxuan, Mr. Wang Lei and Mr. Nicholas John Ashley Rigg. The independent non-executive Directors are Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen.

## DEFINITIONS

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

“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 hereto may agree
“Bond Subscription Agreement”	the Bond 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 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 whose issued Shares 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)

“Conversion Ratio”	the USD principal amount of each Convertible Bond translated into HK\$ divided by the initial Conversion Price or (if applicable) the Conversion Price as adjusted pursuant to the reset provisions (each as adjusted in accordance with 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 bond(s) in an aggregate principal amount of USD40,000,000 (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”
“Director(s)”	the director(s) of the Company
“Early Redemption Amount”	for each USD10,000 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”	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

“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 date of this announcement, Hezhong holds approximately 54.87% of the issued share capital of the Company
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party (Parties)”	independent third party (parties) who are not connected persons of the Company and 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 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 this announcement
“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”
“Placees”	any institutional, corporate or individual investor(s) procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agreement
“Placing”	the placing of 279,000,000 existing Shares under the Placing Agreement

“Placing Agent”	Morgan Stanley & Co. International plc
“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 Price”	HK\$1.165 per Placing Share
“Placing Shares”	an aggregate of 279,000,000 existing Shares 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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“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 Price”	HK\$1.165 per Subscription Share
“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”

“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 Stock Exchange Trading Day, 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
“USD”	United States dollars, the lawful currency of the United States
“%”	per cent.

By Order of the Board  
**Zhongyu Gas Holdings Limited**  
**Wang Wenliang**  
*Chairman*

Hong Kong, 28 May 2007

*For the purpose of this announcement, 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 announcement, unless otherwise indicated, conversion of USD into HK\$ is calculated at the approximate exchange rate of USD1.00 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.*



*This announcement, 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 announcement 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 announcement misleading; and*
- (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least 7 days from the date of its publication.*