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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)

**DISCLOSEABLE TRANSACTION:
FORMATION OF A JOINT VENTURE COMPANY,
MEMORANDA OF UNDERSTANDING
AND
SUSPENSION AND RESUMPTION OF TRADING**

The Board is pleased to announce that on 22 January 2007, the JV Agreement is entered into between Henan Gas and Zhongyu Coalbed Methane, a wholly-owned subsidiary of the Company, pursuant to which Henan Zhongyu JV will be established in Zhengzhou City, Henan Province, the PRC.

Henan Zhongyu JV will be engaged principally in the exploration, development and production of coalbed gas in Jiaozuo City, Henan Province, the PRC and the sale of coalbed gas. Henan Zhongyu JV will be owned beneficially as to 75% by Zhongyu Coalbed Methane and as to the balance of 25% by Henan Gas. Upon establishment, Henan Zhongyu JV will become an indirect non-wholly owned subsidiary of the Company.

Pursuant to the terms of the JV Agreement, the registered capital of Henan Zhongyu JV will be RMB60,000,000 (equivalent to HK\$60,000,000). RMB45,000,000 (equivalent to HK\$45,000,000) will be contributed by Zhongyu Coalbed Methane by way of cash and RMB15,000,000 (equivalent to HK\$15,000,000) will be contributed by Henan Gas by way of contribution in kind.

The Board is also pleased to announce that on 22 January 2007, the Company entered into three MOUs with various different Independent Third Parties in relation to (i) the general cooperation strategy in the exploration, development and utilization of coalbed gas between the Company and Henan Gas, (ii) the general cooperation strategy in the synergic effect of the existing gas businesses between the Company and Henan Lantian and (iii) the proposed formation of a joint venture in Henan Province, the PRC respectively.

The JV Agreement constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. A circular containing further details of the JV Agreement will be sent to the Shareholders in compliance with the GEM Listing Rules.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 22 January 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 23 January 2007.

THE JV AGREEMENT

The Board is pleased to announce that on 22 January 2007, the JV Agreement is entered into between Henan Gas and Zhongyu Coalbed Methane, a wholly-owned subsidiary of the Company, in relation to the formation of Henan Zhongyu JV in Zhengzhou City, Henan Province, the PRC.

Date : 22 January 2007

Parties : (i) Zhongyu Coalbed Methane, a wholly-owned subsidiary of the Company

(ii) Henan Gas, an Independent Third Party

Henan Gas is a State-owned enterprise and was set up with the permission from the Henan Province Government. Led by the Henan Province Coal and Carbon Industrial Bureau, Henan Gas was funded by 11 State-owned enterprises and is principally engaged in coal and carbon businesses with the possession and control in a number of coalbed gas resources, on behalf of the Henan Province Government. The principal business of Henan Gas is to explore, develop, construct and utilise the coalbed gas resources in the entire Henan Province.

Henan Gas and its ultimate beneficial owners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined under the GEM Listing Rules) and are not connected persons (as defined under the GEM Listing Rules) of the Company.

Henan Gas expects that the amount of coalbed gas to be extracted in Henan Province, the PRC will reach 600 million cubic metres and one billion cubic metres in 2008 and 2010 respectively.

Formation of joint venture company

The parties to the JV Agreement agreed that Henan Zhongyu JV will be established in Zhengzhou City, Henan Province, the PRC and will be owned as to 75% by Zhongyu Coalbed Methane and as to 25% by Henan Gas. Henan Zhongyu JV will be engaged principally in the exploration, development and production of coalbed gas in Jiaozuo City, Henan Province, the PRC and the sale of coalbed gas. Coalbed gas is a flammable gas found in coal mines and can be developed as an alternative source of energy.

The exploration and development of coalbed gas will be in two stages. In the first stage, Henan Zhongyu JV will explore in Jiaozuo City for coalbed gas and set up development plan for the exploration and utilization of the coalbed gas. In the second stage, Henan Zhongyu JV will fully develop and utilize coalbed gas extracted in accordance with such development plan.

Registered Capital

The registered capital of Henan Zhongyu JV will be RMB 60,000,000 (equivalent to HK\$60,000,000) and will be contributed as to RMB45,000,000 (equivalent to HK\$45,000,000) by Zhongyu Coalbed Methane in cash and as to RMB15,000,000 (equivalent to HK\$15,000,000) by Henan Gas by way of contribution in kind within 90 days from the date of establishment of Henan Zhongyu JV. Upon establishment, Henan Zhongyu JV will become an indirect non-wholly owned subsidiary of the Company. It is expected that the capital contributions to Henan Zhongyu JV by the relevant joint venture partners will be completed by the end of May 2007.

The Group intends to finance the capital contribution of Zhongyu Coalbed Methane to Henan Zhongyu JV from external fund raising activities. As at the date of this announcement, there was no concrete plan or arrangement for such fund raising activities which may take the form of either debt financing or equity financing or a combination of both. Further announcement(s) will be made by the Company in this regard as and when appropriate in compliance with the GEM Listing Rules.

The total investment of Henan Zhongyu JV has not been specified in the JV Agreement. Apart from the contribution towards the registered capital set out above, there are no further capital commitments that are required to be contributed by the parties to the JV Agreement at this stage. If there is any further material capital commitments to be put up by the parties thereto to Henan Zhongyu JV, further announcement will be made if and when appropriate to comply with the requirements under the GEM Listing Rules.

Conditions of the JV Agreement

The JV Agreement is subject to and upon the following conditions:

- (a) Henan Gas having obtained exploration permit and/or mining rights and all other necessary approvals and rights for the lawful mining in the region;
- (b) the terms in the JV Agreement having fulfilled all PRC laws, regulations and policy in relation to foreign investment in the exploration and development of coalbed gas in the PRC and all necessary approvals, permits and licences for Henan Zhongyu JV having been obtained;
- (c) if necessary, the passing of an ordinary resolution by the Shareholders approving the JV Agreement and the transactions contemplated thereunder;
- (d) the issue of a PRC legal opinion by a PRC lawyer appointed by Zhongyu Coalbed Methane in the form and substance to the satisfaction of Zhongyu Coalbed Methane in relation to the JV Agreement and the transactions contemplated thereunder under the PRC laws; and
- (e) the issue of a valuation report by an independent valuer appointed by Zhongyu Coalbed Methane in the form and substance to the satisfaction of Zhongyu Coalbed Methane confirming the value of coalbed gas resources and relevant devices and facilities to be contributed by Henan Gas as contribution in kind to the registered capital of Henan Zhongyu JV.

Principal obligations of the parties to the JV Agreement

Under the JV Agreement, Henan Gas agrees, among other matters, that:

1. it will contribute to the registered capital in accordance with the terms of the JV Agreement;
2. it will appoint directors of Henan Zhongyu JV in accordance with the terms of the JV Agreement and the articles of association of Henan Zhongyu JV;
3. it will assist Henan Zhongyu JV to obtain approvals from relevant PRC authorities in relation to coalbed gas to ensure all the necessary legal requirements for exploration and production coalbed gas are fulfilled;
4. it will assist Henan Zhongyu JV in the procedures in relation to the application for the land use rights and the operation of the business;
5. it will assist Henan Zhongyu JV for the construction of production facilities;
6. it will appoint such operational managers, technicians, workers and other officers for Henan Zhongyu JV and will assist Henan Zhongyu JV to train such appointed staff; and
7. it will handle such other matters as appointed by Henan Zhongyu JV from time to time.

Under the JV Agreement, Zhongyu Coalbed Methane agrees, among other matters, that:

1. it will contribute to the registered capital in accordance with the terms of the JV Agreement;
2. it will appoint directors of Henan Zhongyu JV in accordance with the terms of the JV Agreement and the articles of association of Henan Zhongyu JV;
3. it will assist Henan Zhongyu JV in the coalbed gas sale market;
4. it will assist Henan Zhongyu JV in the introduction of international recognized modern management methodology and technology;
5. it will purchase machines, materials and other relevant devices outside PRC as appointed by Henan Zhongyu JV;
6. it will appoint such operational managers, technicians, workers and other officers for Henan Zhongyu JV and will assist Henan Zhongyu JV to train such appointed staff; and
7. it will handle such other matters as appointed by Henan Zhongyu JV from time to time.

Board of directors of Henan Zhongyu JV

The board of directors of Henan Zhongyu JV will comprise seven directors, of which two will be appointed by Henan Gas and five will be appointed by Zhongyu Coalbed Methane. The chairman of Henan Zhongyu JV will be nominated by Zhongyu Coalbed Methane and the vice chairman of Henan Zhongyu JV will be nominated by Henan Gas.

Profit sharing in Henan Zhongyu JV

Upon establishment of Henan Zhongyu JV, Zhongyu Coalbed Methane and Henan Gas will be entitled to share the net profit of Henan Zhongyu JV in proportion to their equity interests in Henan Zhongyu JV.

HENAN COOPERATION MOU

Date : 22 January 2007

Parties : (i) the Company
(ii) Henan Gas, an Independent Third Party

The Company entered into the Henan Cooperation MOU with Henan Gas on 22 January 2007. The Henan Cooperation MOU sets out the general cooperation strategy in the exploration, development and utilization of coalbed gas between the Company and Henan Gas, and in particular, the Company shall have the first priority in the development of coalbed gas resources legally owned or controlled by Henan Gas and its shareholders.

The Henan Cooperation MOU only sets out the general cooperation strategy between the parties thereto and any cooperation projects are subject to further agreements between the parties. No capital commitment is required to be provided by the Group at this stage. The Company will make further announcement(s) in compliance with the GEM Listing Rules in the event any such future cooperation projects materialize.

LANTIAN COOPERATION MOU

Date : 22 January 2007

Parties : (i) the Company
(ii) Henan Lantian, an Independent Third Party

Henan Lantian is a consolidated enterprise principally engaged in natural gas, chemical and electricity industries established in Henan Province, the PRC. Henan Lantian and its ultimate beneficial owners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons and are not connected persons of the Company.

The Company entered into the Lantian Cooperation MOU with Henan Lantian on 22 January 2007. The Lantian Cooperation MOU sets out the general cooperation strategy in the synergic effect of the existing businesses between the Company and Henan Lantian.

The Lantian Cooperation MOU only sets out the general cooperation strategy between the parties thereto and any cooperation projects are subject to further agreements between the parties. No capital commitment is required to be provided by the Group at this stage. The Company will make further announcement(s) in compliance with the GEM Listing Rules in the event any such future cooperation projects materialize.

HENAN TECHNICAL MOU

Date : 22 January 2007

Parties : (i) the Company
(ii) Henan Gas, an Independent Third Party
(iii) Coal Research, an Independent Third Party

Coal Research is principally engaged in providing information and consultancy services in relation to the coal industry. Coal Research and its ultimate beneficial owners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons and are not connected persons of the Company.

The Company entered into the Henan Technical MOU with Henan Gas and Coal Research on 22 January 2007. The Henan Technical MOU provides for the proposed formation of a joint venture between the parties thereto in Henan Province, the PRC to engage in the technical research and application of coalbed gas utilization and development and exploration, development and utilization of coalbed gas.

The Henan Technical MOU is subject to further agreement between the parties thereto and the details of the proposed joint venture are subject to further negotiations among the parties thereto. No capital commitment is required to be provided by the Group at this stage. It is intended that the Group will own 44% of the equity interests of the proposed joint venture. The balance of 56% of the equity interests of the proposed joint venture will be owned by third parties independent of the Group and its connected persons. The Company will make further announcement(s) in compliance with the GEM Listing Rules in the event the proposed formation of joint venture becomes materialized.

The Board wishes to emphasise that any such cooperation projects (if any) under the MOUs are subject to further negotiations and as at the date of this announcement, none of such cooperation projects have become materialized. As such, these cooperation projects may or may not proceed. Shareholders and investors are urged to exercise caution when dealings in the securities of the Company. Further announcement(s) will be made by the Company in the event that any formal agreement has been signed in compliance with the GEM Listing Rules.

In the event that the Company terminates any of the MOUs or there is any major developments in relation to such MOUs, announcement(s) will be made by the Company to inform the Shareholders as and when appropriate in compliance with the GEM Listing Rules.

INFORMATION ON HENAN PROVINCE, JIAOZUO AND COALBED GAS

Henan Province, situated in the eastern central of the PRC covers a total area of approximately 167,000 square acres. Henan Province is ranked as the second largest province in terms of the reserve of coalbed methane resources. It is estimated that the total coalbed gas resources in Henan Province amount to approximately 956.5 billion cubic metres.

Jiaozuo City, situated in the northwestern of Henan Province, the PRC covers a total area of approximately 4,071 square acres. It is estimated that the total coalbed gas resources in Jiaozuo City amount approximately 120 billion cubic metres.

Coalbed gas, also known as coalbed methane, is a inflammable gas found in coal mines. Usually, coalbed gas is extracted during the mining process and burnt off to prevent coal mine accidents. However, with appropriate utilization and development, coalbed gas can be used as an alternative energy source to natural gas.

REASONS FOR THE JV AGREEMENT AND THE MOUS

The Group is principally engaged in:

- (i) the development, construction and operation of gas projects in the PRC, which principally include design and construction of gas pipeline network and ancillary facilities and sale of gas, as well as sale and maintenance of gas appliances; and
- (ii) the business of human resource management (“HRM”) solution provision in Hong Kong and the PRC, which principally include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the HRM system.

The Directors have always been active in seeking opportunities for expanding and enhancing the gas and energy business in the PRC. As the PRC is now facing the problem of energy, including but not limited to the shortage of oil and gas resulting from the rapid development of its economy, the Directors consider that there will be more demand for alternative energy source and the JV Agreement offers the Group a good business opportunity to allow the Group to tap into the upper stream coalbed gas supply market in the PRC. In addition, as coalbed methane produced can be used and sold to third parties by the Group, it could help to safeguard sufficient source of gas supply to the Group’s gas projects located in Henan Province and enlarge the Group’s source of income as well as to greatly alleviate the PRC’s energy problem. Henan Zhongyu JV is the first joint venture of the Group in relation to coalbed gas in Henan Province, the PRC and the Directors consider the formation of Henan Zhongyu JV will enhance its existing gas project business.

The MOUs set out the general cooperation strategies between the existing and future partners of the Company, which, in the view of the Directors, will enhance its existing business network in the PRC.

The Directors, including the independent non-executive Directors, consider that the terms of the JV Agreement and the MOUs are entered into upon normal commercial terms following arm’s length negotiations among the parties and the terms of the JV Agreement and the MOUs are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GENERAL

The JV Agreement constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. A circular containing further details of the JV Agreement will be sent to the Shareholders in compliance with the GEM Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 22 January 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 23 January 2007.

DEFINITIONS

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

“Board”	the board of Directors
“Coal Research”	煤炭信息研究院 (Coal Information Research Institute)#, a state-owned research centre established in the PRC
“Company”	Zhongyu Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the GEM
“connected persons”	has the meaning ascribed to it under the GEM Listing Rules
“Directors”	directors (including the independent non-executive directors) of the Company from time to time
“Henan Cooperation MOU”	the memorandum of understanding dated 22 January 2007 entered into between the Company and Henan Gas
“Henan Gas”	河南省煤層氣開發利用有限公司 (Henan Province Coalbed Gas Development and Utilization Company Limited)#, a limited liability company established in Henan Province, the PRC
“Henan Lantian”	河南藍天集團有限公司 (Henan Lantian Group Company Limited)#, a limited liability company established in Henan Province, the PRC
“Henan Technical MOU”	the memorandum of understanding dated 22 January 2007 entered into among the Company, Henan Gas and Coal Research
“Henan Zhongyu JV”	河南中裕煤層氣開發利用有限公司 (Henan Zhongyu Coalbed Gas Development Utilization Company Limited)#, a limited liability company to be established in Henan Province, the PRC in accordance with the terms of the JV Agreement, which name is subject to the approval of the relevant authorities
“GEM”	the Growth Enterprise Market on the Stock Exchange

“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	third parties independent of the Company and its connected persons and are not connected persons of the Company
“JV Agreement”	the joint venture agreement dated 22 January 2007 and entered into between Henan Gas and Zhongyu Coalbed Gas with respect to the formation of Henan Zhongyu JV
“Lantian Cooperation MOU”	the memorandum of understanding dated 22 January 2007 entered into between the Company and Henan Lantian
“MOUs”	the Henan Cooperation MOU, the Henan Technical MOU and the Lantian Cooperation MOU
“PRC”	the People’s Republic of China
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongyu Coalbed Methane”	中裕煤層氣發展有限公司 (Zhongyu Coalbed Methane Development Limited), a limited liability company incorporated in the British Virgin Islands and 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
“%”	per cent.

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

Hong Kong, 22 January 2007

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.

the English translations of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or word.

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 RMB1.00. This exchange rate is for illustration purpose 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.

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