

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



中裕燃气控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liabilities)

(Stock Code: 8070)

DISCLOSEABLE TRANSACTIONS: INCREASE IN THE REGISTERED CAPITAL OF A JOINT VENTURE COMPANY AND FORMATION OF A JOINT VENTURE COMPANY IN THE PRC

The Board is pleased to announce that on 23 October 2007, the Capital Increase Agreement is entered into between Henan Gas and Zhongyu Henan, a wholly-owned subsidiary of the Company, pursuant to which the registered capital of Henan Zhongyu JV will be increased from RMB60,000,000 to RMB200,000,000.

The Board is also pleased to announce that on 23 October 2007, the JV Agreement is entered into between Henan Zhongyu JV and Jiaozuo Investment in relation to the formation of Jiaozuo JV in Jiaozuo City, Henan Province, the PRC.

The parties to the JV Agreement agreed that Jiaozuo JV will be established in Jiaozuo City, Henan Province, the PRC and will be owned as to 95% by Henan Zhongyu JV and as to 5% by Jiaozuo Investment. Jiaozuo JV will be engaged principally in the exploration, exploitation, development and production of coalbed gas, the research and utilization of coalbed gas and relevant design and engineering works in Jiaozuo City, Henan Province, the PRC.

The proposed increase in the registered capital of Henan Zhongyu JV and the entering into of the JV Agreement constitute discloseable transactions on the part of the Company under Chapter 19 of the GEM Listing Rules. A circular containing further details of the Capital Increase Agreement and the JV Agreement will be despatched to the Shareholders in compliance with the GEM Listing Rules as soon as practicable.

BACKGROUND OF THE INCREASE IN THE REGISTERED CAPITAL

Reference is made to the announcements of the Company dated 22 January 2007 and 11 April 2007 respectively and the circular of the Company dated 12 February 2007 in relation to, among other matters, the formation of Henan Zhongyu JV.

As disclosed earlier, the Group and Henan Gas agreed to establish Henan Zhongyu JV in Henan Province, the PRC, which is owned as to 75% by the Group and as to 25% by Henan Gas. The original registered capital of Henan Zhongyu JV is RMB60,000,000, as to RMB45,000,000 contributed by the Group and as to the remaining RMB15,000,000 contributed by Henan Gas. Henan Zhongyu JV was accordingly established on 27 March 2007. For further details of Henan Zhongyu JV, please refer to the announcements of the Company dated 22 January 2007 and 11 April 2007 respectively and the circular of the Company dated 12 February 2007.

The Board is pleased to announce that on 23 October 2007, the Capital Increase Agreement is entered into between Henan Gas and Zhongyu Henan, a wholly-owned subsidiary of the Company, pursuant to which the registered capital of Henan Zhongyu JV will be increased from RMB60,000,000 to RMB200,000,000.

THE CAPITAL INCREASE AGREEMENT

Date: 23 October 2007

Parties: (i) Zhongyu Henan, a wholly-owned subsidiary of the Company;
and
(ii) Henan Gas, save for its interests in Henan Zhongyu JV, an Independent Third Party

Henan Gas is a State-owned enterprise and was set up with the permission of the Henan Province Government. The principal business of Henan Gas is to explore, develop, construct and utilize the coalbed methane resources in Henan Province, the PRC.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for its interests in Henan Zhongyu JV, Henan Gas and its ultimate beneficial owners are Independent Third Parties.

Increase in the registered capital of Henan Zhongyu JV

As disclosed in the circular of the Company dated 12 February 2007, the original registered capital of Henan Zhongyu JV is RMB60,000,000, as to RMB45,000,000 contributed by the Group and as to the remaining RMB15,000,000 contributed by Henan Gas. Henan Zhongyu JV is engaged principally in the exploration, development and production of coalbed gas in Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima and Yongxia in Henan Province, the PRC and the sale of coalbed gas.

Pursuant to the Capital Increase Agreement, the registered capital of Henan Zhongyu JV will be increased by RMB140,000,000 to RMB200,000,000. The increase in the registered capital of Henan Zhongyu JV will be made through the pro rata contribution in cash by Zhongyu Henan and Henan Gas, as to RMB105,000,000 will be contributed by Zhongyu Henan and as to RMB35,000,000 will be contributed by Henan Gas.

Immediately after the increase in the registered capital of Henan Zhongyu JV, Henan Zhongyu JV will remain to be owned as to 75% by the Group and as to 25% by Henan Gas. Henan Zhongyu JV will continue to be an indirect non-wholly-owned subsidiary of the Company.

The Group intends to finance the capital contribution from its internal funds.

Apart from the contributions towards the increase in registered capital as set out herein, there are no further capital commitments that are required to be contributed by the relevant parties at this stage. If there is any further material capital commitments to be contributed by the relevant parties to Henan Zhongyu JV, further announcement will be made if and when appropriate to comply with the requirements under the GEM Listing Rules.

Reasons for entering into the Capital Increase Agreement

The Directors have always been active in seeking opportunities for expanding and enhancing the gas and energy business in the PRC. In view of the formation of Jiaozuo JV by Henan Zhongyu JV, the details of which are stated below, the Directors consider that it is necessary for Henan Zhongyu JV to have sufficient funds to finance its investment in Jiaozuo JV.

Pursuant to the terms of the Capital Increase Agreement, the capital contributions will be made pro rata in respect of the interests of the Group and Henan Gas in Henan Zhongyu JV. Taking into account of the aforesaid reasons and the pro rata contribution, the Directors consider that the terms of the Capital Increase Agreement is fair and reasonable and the entering into of the Capital Increase Agreement is in the interests of the Shareholders and the Company as a whole.

JV AGREEMENT

The Board is also pleased to announce that on 23 October 2007, the JV Agreement is entered into between Henan Zhongyu JV and Jiaozuo Investment in relation to the formation of Jiaozuo JV in Jiaozuo City, Henan Province, the PRC.

Date: 23 October 2007

Parties: (i) Henan Zhongyu JV, an indirect non-wholly-owned subsidiary of the Company

(ii) Jiaozuo Investment, an Independent Third Party

Jiaozuo Investment is a State-owned company established in the PRC. Jiaozuo Investment is principally engaged in investment holdings.

Jiaozuo Investment and its ultimate beneficial owners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are Independent Third Parties.

Formation of Jiaozuo JV

The parties to the JV Agreement agreed that Jiaozuo JV will be established in Jiaozuo City, Henan Province, the PRC and will be owned as to 95% by Henan Zhongyu JV and as to 5% by Jiaozuo Investment. Jiaozuo JV will be engaged principally in the exploration, exploitation, development and production of coalbed gas, the research and utilization of coalbed gas and relevant design and engineering works in Jiaozuo City, Henan Province, the PRC.

Registered Capital

The registered capital of Jiaozuo JV will be RMB150,000,000 and will be contributed as to RMB142,500,000 by Henan Zhongyu JV in cash and as to RMB7,500,000 by Jiaozuo Investment in cash. Upon establishment, Jiaozuo JV will become an indirect non-wholly-owned subsidiary of the Company.

The Group intends to finance the capital contribution to Jiaozuo JV from its internal funds.

Total investment

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

Board of directors of Jiaozuo JV

The board of directors of Jiaozuo JV will comprise nine directors, of which eight of them will be nominated by Henan Zhongyu JV and one of which will be nominated by Jiaozuo Investment.

Profit sharing in Jiaozuo JV

Upon establishment of Jiaozuo JV, Henan Zhongyu JV and Jiaozuo Investment will be entitled to share the profit of Jiaozuo JV in proportion to their equity interests in Jiaozuo JV.

Reasons for entering into the JV Agreement

The Directors have been active in seeking opportunities for expanding and enhancing the gas projects business in the PRC.

The establishment of Jiaozuo JV will speed up the exploration, development and utilization of coalbed gas resources in Jiaozuo area. In addition, it will also promote the scale of use of coalbed gas in Jiaozuo area and also assist systematic development and application of coalbed gas in the area. The establishment of Jiaozuo JV will also allow the Group to gain support from local government of Jiaozuo City. In addition, the entering into of the JV Agreement will reinforce the strategic cooperation relationship between the Group and Jiaozuo Investment, which, in the view of the Directors, will further enhance its existing business network in the PRC.

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

INFORMATION ON HENAN PROVINCE, JIAOZUO CITY 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 amounts to approximately 173.4 billion cubic metres.

Coalbed gas, also known as coalbed methane, is an 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.

GENERAL

As at the date hereof, the Group is principally engaged in (i) the exploration, development and production of coalbed methane and the sale of coalbed methane in the PRC; and (ii) the development, construction and operation of natural gas projects in the PRC, which include 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.

The proposed increase in the registered capital of Henan Zhongyu JV and the entering into of the JV Agreement constitute discloseable transactions on the part of the Company under Chapter 19 of the GEM Listing Rules.

A circular containing further details of the Capital Increase Agreement and the JV Agreement will be despatched to the Shareholders in compliance with the GEM Listing Rules as soon as practicable.

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
“Capital Increase Agreement”	the agreement dated 23 October 2007 and entered into between Zhongyu Henan and Henan Gas in respect of the proposed increase of registered capital of Henan Zhongyu JV from RMB60,000,000 to RMB200,000,000
“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 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 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 Zhongyu JV”	河南中裕煤層氣開發利用有限公司 (Henan Zhongyu Coalbed Gas Development and Utilization Company Limited)#, a limited liability joint venture company established in Henan Province, the PRC, which is owned as to 75% by the Group and as to 25% by Henan Gas
“GEM”	the Growth Enterprise Market on the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on 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

“Jiaozuo Investment”	焦作市投資公司 (Jiaozuo City Investment Company)#, a limited liability company established in the PRC
“Jiaozuo JV”	中裕(焦作)煤層氣開發利用有限公司 (Zhongyu Jiaozuo Coalbed Gas Development and Utilization Company Limited)#, a limited liability company to be established in Jiaozuo City, Henan Province, the PRC in accordance with the terms of the JV Agreement, which name is subject to the approval of the relevant authorities
“JV Agreement”	the joint venture agreement dated 23 October 2007 and entered into between Henan Zhongyu JV and Jiaozuo Investment with respect to the formation of Jiaozuo JV
“PRC”	the People’s Republic of China
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongyu Henan”	中裕(河南)能源控股有限公司 (Zhongyu Henan Energy Holdings Limited)#, a limited liability company established in the PRC and is wholly and beneficially owned by 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, 23 October 2007

As at the date hereof, the executive Directors are Mr. Wang Wenliang, Mr. Hao Yu, Mr. Lu Zhaoheng and Mr. Lui Siu Keung. 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 words.

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) for at least 7 days from the date of its publication.