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**中裕燃氣控股有限公司**

**ZHONGYU GAS HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8070)**

**REPURCHASE OF CONVERTIBLE BONDS  
AND  
ALTERATIONS IN THE TERMS OF CONVERTIBLE BONDS  
AND  
CONNECTED TRANSACTION  
AND  
RESUMPTION OF TRADING**

This announcement is made pursuant to Rules 17.10 and 20.47 of the GEM Listing Rules.

On 25 March 2009, the Company entered into a conditional Amendment Agreement with the Subscribers pursuant to which the Company and the Subscribers have conditionally agreed to alter the existing terms and conditions of the Convertible Bonds of the Company in exchange for the repurchase by the Company of the Repurchase Bonds at a purchase price representing 110% of the principal amount of the Repurchase Bonds, together with all accrued and unpaid interest on the Repurchase Bonds as of the date of Completion and the payment of the Upfront Fee to the Subscribers. The Company will apply to the Stock Exchange for its approval of the proposed alterations to the terms of existing Convertible Bonds pursuant to Rules 31.10 and 34.05 of the GEM Listing Rules.

One of the Subscribers is a substantial Shareholder of the Company which as at the date of this announcement holds 253,798,000 Shares, representing approximately 13.12% of the issued share capital of the Company. As such, the entering into by the Company of the Amendment Agreement with this Subscriber constitutes a connected transaction for the Company under Rule 20.13(1)(a) of the GEM Listing Rules and is subject to independent Shareholders' approval as required pursuant to Rule 20.18 of the GEM Listing Rules.

The other Subscribers (one of which as at the date of this announcement holds 13,440,000 Shares, representing approximately 0.70% of the issued share capital of the Company) and their ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

In accordance with Rule 20.54 of the GEM Listing Rules, the Subscriber who is a substantial shareholder of the Company, and who has a material interest in the Connected Transaction, will, together with its associates, abstain from voting on the resolution to approve the Transaction. Notwithstanding the other Subscribers are not connected persons of the Company, all Subscribers, to the extent they or their associates have Shares, have a material interest in the Transaction and must therefore also abstain from voting on any resolution at the EGM to approve the Transaction. The vote of the Independent Shareholders at the EGM shall be taken by poll. Hezhong is a Shareholder which, as at the date of this announcement, holds 945,755,542 Shares, representing approximately 48.89% of the issued share capital of the Company and is not materially interested in the Transaction. Save for each of them being Shareholders of the Company, Hezhong and its ultimate beneficial owners have no other relationship with the Subscribers and Hezhong is therefore entitled to vote at the EGM on resolutions to approve the Transaction. Hezhong has undertaken to vote in favour of the Transaction at the EGM.

A circular containing, among other things (i) further details of the Transaction; (ii) the letter from the Independent Board Committee giving its recommendation to the Independent Shareholders on the Transaction; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee on the Transaction; (iv) the notice of the EGM; and (v) other information as required by the GEM Listing Rules will be despatched to Shareholders as soon as practicable.

**Shareholders and potential investors in the Company should note that Completion is subject to a number of conditions precedent, and therefore may or may not take place. Shareholders and potential investors in the Company are advised to exercise caution when dealing in the Shares.**

## **RESUMPTION OF TRADING**

At the request of the Company, dealing in the Shares on GEM were suspended with effect from 9:30a.m. on Thursday, 26 March 2009 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 9:30a.m. on Monday, 30 March 2009.

## **THE AMENDMENT AGREEMENT**

On 25 March 2009, the Company entered into a conditional Amendment Agreement with the Subscribers pursuant to which the Company and the Subscribers have conditionally agreed to alter the existing terms and conditions of the Convertible Bonds of the Company in exchange for the repurchase by the Company of the Repurchase Bonds and the payment of the Upfront Fee. The Subscribers hold all the outstanding Convertible Bonds.

The principal terms of the Amendment Agreement are summarised as follows:-

- Date of Amendment Agreement:** 25 March 2009
- Parties:**
- (1) The Company
  - (2) The Subscribers
- Conditions Precedent include, amongst other things:**
- (1) Compliance (if any) with the necessary disclosure and/or shareholder approval requirements pursuant to the GEM Listing Rules in relation to the alterations to the Transaction;
  - (2) the Stock Exchange having approved the Bond Terms as per the terms of the listing permission of the Shares which are issuable upon conversion of the Bonds, dated 22 June 2007; and
  - (3) the entry into by Hezhong of an irrevocable undertaking to confirm that it will vote in favour of the resolutions proposed in the EGM to approve the Transaction.

As at the date of this announcement, Hezhong has already entered into the abovementioned undertaking.

**Completion:** Completion is to take place on the third business day after the Company gives written confirmation to the Subscribers of the fulfilment of the last of the conditions precedent set out in the Amendment Agreement, or such other date and time as may be agreed between the parties to the Amendment Agreement.

**Repurchased Bonds:** On Completion, the Subscribers shall sell and the Company shall purchase the Repurchased Bonds at a consideration equal to the aggregate of (a) US\$15,400,000 (representing 110% of the outstanding principal amount of the Repurchase Bonds); (b) a total of US\$150,000 by way of Upfront Fee; and (c) all accrued and unpaid interest on the Repurchase Bonds up to the date of Completion.

The four Subscribers are effectively three different parties as two of the four Subscribers are related companies. The Repurchase Bonds will be repurchased from the Subscribers pro rata to the outstanding Convertible Bonds held by them and each of the three different parties will receive US\$50,000 each and their portion of the Upfront Fee will be paid on or before Completion. The Upfront Fee was a fee raised by and negotiated with the Subscribers to induce them to agree to the Amendment Agreement and is similar to a facility fee paid for loan facilities or restructuring of debt securities. The amount agreed in respect of the Upfront Fee was based on arms' length negotiations.

The payment of the consideration will be funded from internal resources and other bank borrowings of the Group.

**Alterations of the terms and conditions of the Convertible Bonds:**

The proposed alterations consist of the following:-

	<b>Existing terms</b>	<b>Proposed Amendments</b>
Conversion price	HK\$0.968 per Conversion Share as adjusted with effect from 25 June 2008	HK\$0.70 per Conversion Share with effect from the date of Completion

	<b>Existing terms</b>	<b>Proposed Amendments</b>
Adjustment of conversion price	There could be an adjustment to the initial conversion price depending on changes in the market price of the Shares in a prescribed period of time provided that such adjustment shall not result in the conversion price being less than 50% of the initial conversion price per Share and may only be a downward adjustment	<p>There shall be no adjustment of the initial conversion price as a result of changes in the market price of the Shares but the following adjustments to the initial conversion price will remain in the event of:</p> <ol style="list-style-type: none"> <li>1) consolidation, subdivision or reclassification of Shares;</li> <li>2) capitalisation of profits or reserves;</li> <li>3) capital distribution;</li> <li>4) rights issue of shares or options over shares;</li> <li>5) rights issue of other securities;</li> <li>6) issues at less than market price;</li> <li>7) modification of rights of conversion; or</li> <li>8) other offers to Shareholders.</li> </ol>
Redemption rate on maturity	125%	130%

	<b>Existing terms</b>	<b>Proposed Amendments</b>
Coupon	1.00% per annum, payable semi-annually in arrears	<p>(i) from (and including) 25 December 2008 to (but excluding) 25 June 2009 at the rate of 1.00% per annum</p> <p>(ii) from (and including) 25 June 2009 to (but excluding) maturity or early redemption at the rate of 2.00% per annum</p> <p>payable semi-annually in arrears</p>
Yield to Maturity	5.42% per annum	6.23% per annum
Redemption at the option of the Bondholders	Bondholders will have the right to require the Company to redeem in whole or in part their convertible bonds at 110% of the principal amount with accrued and unpaid interest on 25 June 2009	Deletion of such obligation of the company to repurchase the Convertible Bonds on 25 June 2009 but other rights of Bondholders to require the Company to redeem the Outstanding Bonds in the event of a change of control or delisting of the Shares on the Stock Exchange remain

## Existing terms

Mandatory redemption by the Company on 25 June 2010 and 25 June 2011

N/A

## Proposed Amendments

The Company must redeem a portion of the outstanding principal amount of the Outstanding Bonds in the amounts and at the redemption prices set out below and in one of the following ways:

- a) on 25 June 2010, redeem not less than US\$1,050,000 in principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of Bonds so redeemed, together with any accrued and unpaid interest; and
- b) on 25 June 2011,
  - (i) if less than US\$2,100,000 in principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$3,150,000 in principal amount of the Outstanding Bonds, at the redemption price of 120% of the US\$ principal amount of Bonds so redeemed, together with any accrued and unpaid interest; or

**Existing terms**

**Proposed Amendments**

(ii) if US\$2,100,000 or more in principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$2,100,000 in principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of Bonds so redeemed, together with any accrued and unpaid interest.

Future declaration of dividends N/A

Declaration of dividends and other capital distributions to Shareholders will be subject to the prior written consent of all the Bondholders



	<b>Existing terms</b>	<b>Proposed Amendments</b>
Future borrowings	N/A	<p>For so long as any of the Outstanding Bonds remain outstanding, if the Company incurs any financial indebtedness (mainly borrowings but excluding trade payables), the Company shall redeem a portion of the then outstanding principal amount of the Outstanding Bonds equal to 10% of the proceeds of the financial indebtedness, at the following redemption price:</p> <p>(a) where such redemption takes place on or before 25 June 2010, 110% of the US\$ principal amount of the Outstanding Bonds so redeemed, together with any accrued and unpaid interest;</p> <p>(b) where such redemption takes place after 25 June 2010 but on or before 25 June 2011, 120% of the US\$ principal amount of the Outstanding Bonds so redeemed, together with any accrued and unpaid interest; and</p>

## Existing terms

## Proposed Amendments

- (c) where such redemption takes place after 25 June 2011 but on or before 25 June 2012, 130% of the US\$ principal amount of the Outstanding Bonds so redeemed, together with any accrued and unpaid interest.

Except as amended pursuant to the above proposed alterations, all other terms and conditions of the Convertible Bonds shall remain unchanged and shall continue in full force and effect in connection with the Outstanding Bonds. The Company will apply to the Stock Exchange for its approval of the proposed alterations to the terms of existing Convertible Bonds pursuant to Rules 31.10 and 34.05 of the GEM Listing Rules.

The revised conversion price of HK\$0.70 per Conversion Share was determined by way of arms' length negotiations and the executive Directors felt this was fair and reasonable in light of the significant premiums to the recent closing price of the Shares as set out below. The revised conversion price represents:

- (i) a premium of approximately 70.73% over the closing price of HK\$0.41 per Share as quoted on the GEM on the Last Trading Day;
- (ii) a premium of approximately 63.17% over the average closing price of HK\$0.429 per Share for the five consecutive trading days as quoted on the GEM up to and including the Last Trading Day; and
- (iii) a premium of approximately 60.00% over the average closing price of HK\$0.4375 per Share for the ten consecutive trading days as quoted on the GEM up to and including the Last Trading Day.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, save for one of the Subscribers who is a substantial Shareholder of the Company and therefore a connected person of the Company, each of the Subscribers and their ultimate beneficial owners are Independent Third Parties.

## EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) upon allotment and issue of the Shares at the amended conversion price of HK\$0.70 per Conversion Share are as follows:

Name of Shareholders	As at the date of this announcement		Immediately after the allotment and issue of Shares pursuant to the exercise in full of the Convertible Bonds (as amended by the Amendment Agreement) at the initial conversion price of HK\$0.70 per Share	
	No. of Shares held	Approx. % of Shares	No. of Shares held	Approx. % of shares
Hezhong Investment Holding Co Ltd	945,755,542	48.89	945,755,542	43.60
Wang Wenliang <sup>(1)</sup>	946,921,542	48.95	946,921,542	43.66
Hao Yu <sup>(2)</sup>	945,755,542	48.89	945,755,542	43.60
Subscriber who owns more than 10% of Shares	253,798,000	13.12	367,794,657	16.96
Other Subscribers	13,440,000	0.70	134,142,343	6.18
Public shareholders	<u>720,242,000</u>	<u>37.23</u>	<u>720,242,000</u>	<u>33.20</u>
Total	<u>1,934,401,542</u>	<u>100.00</u>	<u>2,169,100,542</u>	<u>100.00</u>

Notes:

- (1) Mr. Wang Wenliang is an executive Director and is interested in 60% of the issued share capital of Hezhong and is therefore deemed to be interested in the 945,755,542 Shares held by Hezhong. The remaining 1,166,000 Shares are held by Mr. Wang Wenliang directly.
- (2) Mr. Hao Yu is an executive Director and is interested in 40% of the issue share capital of Hezhong, and is therefore deemed to be interested in the 945,755,542 Shares held by Hezhong.

This summary table assumes, for illustration purposes, that there are no further issue of Shares after the date of this announcement and prior to the conversion of all of the Convertible Bonds and no exercise of existing share options. The “Other Subscribers” would, for so long as they do not come to hold 10% or more of the Shares in issue will be considered part of the Company’s public float.

## **FURTHER INFORMATION ON THE CONVERTIBLE BONDS**

As at the date of this announcement, the outstanding principal amount of the Convertible Bonds held by the Subscribers is US\$35,000,000. If the Transaction is completed, the outstanding principal amount of the Outstanding Bonds will be reduced to US\$21,000,000.

The convertible bonds issued pursuant to the Bond Subscription Agreement were in the aggregate principal sum of US\$40,000,000. Prior to the entry into the Amendment Agreement by the parties, the Company had repurchased convertible bonds in the principal amount of US\$5,000,000.

## **REASONS FOR THE AMENDMENT AGREEMENTS AND BENEFITS TO THE COMPANY**

The Board (other than the independent non-executive Directors who will defer giving their opinion till such time as after they have received advice from the Independent Financial Adviser and will state their recommendation in the circular to be despatched to the Shareholders in connection with the Amendment Agreement and the Transaction) is of the view that the terms of the Amendment Agreement and the Transaction are determined on an arms' length basis on normal commercial terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors have taken into account, among other things, that the Subscribers have given up their right to put the Bonds back to the Company on 25 June 2009 in exchange for rescheduled terms of payment and other rights. Had the Amendment Agreement not been entered into or if the Independent Shareholders do not approve the Amendment Agreement, it is unlikely that the Company will have sufficient cash reserves to satisfy their obligations in the event that the Subscribers exercise their put option on 25 May 2009. As the conversion price under the outstanding Convertible Bonds is at a significant premium to recent market price of the Shares, the Company believes that it would be prudent to assume that some or all of the Subscribers would, absent the Amendment Agreement, exercise their put option in June 2009.

## **LISTING RULES IMPLICATIONS**

This announcement is made pursuant to Rules 17.10 and 20.47 of the GEM Listing Rules.

One of the Subscribers is a substantial Shareholder of the Company which as at the date of this announcement holds 253,798,000 Shares, representing approximately 13.12% of the issued share capital of the Company. As such, the entering into by the Company of the Amendment Agreement with this Subscriber constitutes a connected transaction for the Company under Rule 20.13(1)(a) of the GEM Listing Rules and is subject to independent Shareholders' approval requirement pursuant to Rule 20.18 of the GEM Listing Rules.

In accordance with Rule 20.54 of the GEM Listing Rules, the Subscriber who is a substantial shareholder of the Company, and who has a material interest in the Connected Transaction, will, together with its associates, abstain from voting on the resolution to approve the Transaction. Notwithstanding the other Subscribers are not connected persons (as defined in the GEM Listing Rules) of the Company, all Subscribers, to the extent they or their associates have Shares, have a material interest in the Transaction and must therefore also abstain from voting on any resolution at the EGM to approve the Transaction. The vote of the Independent Shareholders at the EGM shall be taken by poll. Hezhong is a Shareholder which as at the date of this announcement holds 945,755,542 Shares, representing approximately 48.89% of the issued share capital of the Company and is not materially interested in the Transaction. Save for each of them being Shareholders of the Company, Hezhong and its ultimate beneficial owners have no other relationship with the Subscribers and Hezhong is therefore entitled to vote at the EGM on resolutions to approve the Transaction. Hezhong has undertaken to vote in favour of the Transaction at the EGM.

A circular containing, among other things (i) further details of the Transaction; (ii) the letter from the Independent Board Committee giving its recommendation to the Independent Shareholders on the Transaction; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee relating to the Transaction; (iv) the notice of the EGM; and (v) other information as required by the GEM Listing Rules will be despatched to Shareholders as soon as practicable.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.

**Shareholders and potential investors in the Company should note that Completion is subject to a number of conditions precedent, and therefore may or may not take place. Shareholders and potential investors in the Company are advised to exercise caution when dealing in the Shares.**

#### **INFORMATION ON THE GROUP**

The Group is principally engaged in:

- (i) the exploration, exploitation and development of coalbed methane;
- (ii) the development and construction of natural gas pipeline network and sale of piped gas; and
- (iii) sales of natural gas from gas filling stations for vehicles in the PRC.

#### **INFORMATION ON THE SUBSCRIBERS**

As far as the Board is aware, all of the Subscribers are investment holding companies.

#### **RESUMPTION OF TRADING**

At the request of the Company, dealing in the Shares on GEM were suspended with effect from 9:30a.m. on Thursday, 26 March 2009 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 Monday, 30 March 2009.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“Amendment Agreement”	the agreement dated 25 March 2009 and entered into between the Company and the Subscribers in relation to alterations of the terms and conditions of the Convertible Bonds
“Board”	board of Directors
“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 by the Subscribers
“Bond Terms”	the proposed terms and conditions of the Outstanding Bonds
“Bondholders”	the holders of the Outstanding Bonds from time to time
“Business Day”	a day (other than a Saturday or a Sunday) on which banks generally are open for business in New York, Hong Kong, the PRC, Brussels and Luxembourg
“Company”	Zhongyu Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on GEM
“Completion”	completion of the Amendment Agreement
“connected person”	the meaning ascribed to it in the GEM Listing Rules
“Connected Transaction”	the entering into by the Company of the Amendment Agreement with one of the Subscribers who is a substantial shareholder of the Company, and which as at the date of this announcement owns approximately 13.12% of the issued share capital of the Company
“Conversion Shares”	new Shares to be issued and allotted by the Company upon conversion of the Outstanding Bonds

“Convertible Bonds”	the convertible bonds in an aggregate principal amount of US\$35,000,000 (equivalent to approximately HK\$273,000,000) due 2012 issued by the Company to the Subscribers on 25 June 2007 in accordance with the terms of the Bond Subscription Agreement
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Transaction
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“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 60% by Mr. Wang Wenliang and as to 40% by Mr. Hao Yu. As at the date of this announcement, Hezhong holds approximately 48.89% of the issued share capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board comprising all the independent non-executive Directors, namely Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen established for the purpose of advising and giving recommendation to the Independent Shareholders on the Amendment Agreement and the Transaction
“Independent Financial Adviser”	the independent financial adviser to the Independent Board Committee and Independent Shareholders regarding the terms of the Agreement
“Independent Shareholders”	shareholders of the Company, other than the Subscribers and any of their associates (as defined in the GEM Listing Rules)



“Independent Third Parties”	persons who are not connected persons of the Company
“Last Trading Day”	25 March 2009, being the last trading day immediately prior to the suspension of trading in Shares on GEM pending the release of this announcement
“Outstanding Bonds”	the Convertible Bonds outstanding after completion of the Transaction, in an aggregate principal amount of US\$21,000,000 (equivalent to approximately HK\$163,800,000)
“Repurchase Bonds”	40% of the outstanding Convertible Bonds in an aggregate principal amount of US\$14,000,000 (equivalent to approximately HK\$109,200,000) to be repurchased by the Company from the Subscribers in accordance with the terms of the Amendment Agreement
“PRC”	The People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	the subscribers to the Amendment Agreement
“Transaction”	the sale and purchase of the Repurchase Bonds, payment of the Upfront Fee and the amendment of the terms and conditions of the Convertible Bonds in accordance with the terms of the Amendment Agreement
“Upfront Fee”	the fee to be paid by the Company to the Subscribers in an aggregate amount of US\$150,000 (equivalent to approximately HK\$1,170,000)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

“US\$” United States dollars, the lawful currency of the United States

“%” per cent.

*For the purpose of this announcement, unless otherwise indicated, conversion of US\$ into HK\$ is calculated at the approximate exchange rate of US\$1.00 to HK\$7.8. 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.*

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

Hong Kong, 27 March 2009

*As at the date of this announcement, the Board comprises Mr. Wang Wenliang, Mr. Hao Yu, Mr. Lu Zhaoheng and Mr. Lui Siu Keung, being the executive Directors, Mr. Xu Yongxuan, being the non-executive Director and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, being the independent non-executive Directors.*

*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 GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for seven days from the date of its publication and on the Company’s website at <http://www.zygas.com.cn>.*