
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

REPURCHASE OF CONVERTIBLE BONDS, ALTERATIONS IN THE TERMS OF CONVERTIBLE BONDS AND CONNECTED TRANSACTION

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



A letter from the independent board committee (the “Independent Board Committee”) of the board of directors of the Company is set out on pages 15 to 16 of this circular. A letter from VC Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the independent shareholders of the Company is set out on pages 17 to 30 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Unit 10, 33rd Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 4 May 2009 at 11 a.m. (the “EGM”) is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting as the case may be. Completion and delivery of the enclosed form of proxy will not preclude you from attending and voting at the EGM should you so wish.

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

15 April 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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DEFINITIONS

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

“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, the Subscribers and DKR SoundShore Oasis Holding Fund Limited in relation to the issue and subscription of the Convertible Bonds by the Subscribers and DKR SoundShore Oasis Holding Fund Limited
“Bond Terms”	the proposed terms and conditions of the Outstanding Bonds
“Bondholders” or “Subscribers”	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 Latest Practicable Date owns approximately 13.15% of the issued share capital of the Company
“Convertible Bonds”	the convertible bonds in an aggregate principal amount of US\$35,000,000 (equivalent to 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 and, as the context may require, such convertible bonds as amended by the Amendment Agreement
“Convertible Shares”	new Shares to be issued and allotted by the Company upon conversion of the Outstanding Bonds
“Director(s)”	director(s) of the Company

DEFINITIONS

“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 Latest Practicable Date, 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 Transaction contemplated by the terms of the Amendment Agreement
“Independent Financial Adviser” or “VC Capital”	VC Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, and the independent financial adviser to the Independent Board Committee and Independent Shareholders regarding the terms of the Transaction contemplated by the terms of the Amendment Agreement
“Independent Shareholders”	shareholders of the Company, other than the Subscribers and any of their respective 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 the Company’s announcement dated 27 March 2009 in connection with the Transaction
“Latest Practicable Date”	14 April 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular

DEFINITIONS

“Outstanding Bonds”	the Convertible Bonds outstanding after completion of the Amendment Agreement, in an aggregate principal amount of US\$21,000,000 (equivalent to HK\$163,800,000)
“Repurchase Bonds”	40% of the outstanding Convertible Bonds in an aggregate principal amount of US\$14,000,000 (equivalent to 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 circular, 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
“Transaction”	all transactions contemplated under the Amendment Agreement, including the sale and purchase of the Repurchase Bonds, the 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 HK\$1,170,000)
“EUR”	Euro(s), the lawful currency of the European Union
“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 circular, unless otherwise indicated, conversion of US\$ into HK\$ is calculated at an 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.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Wang Wenliang (*Chairman*)
Mr. Hao Yu (*Chief Executive Officer*)
Mr. Lu Zhaoheng
Mr. Lui Siu Keung (*Chief Financial Officer*)

Non-executive Director:

Mr. Xu Yongxuan (*Vice Chairman*)

Independent non-executive Directors:

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

Registered office:

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

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

Unit 10, 33rd Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

15 April 2009

To the Shareholders

Dear Sir or Madam,

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

Introduction

On 27 March 2009, the Company announced, among other matters, that it had entered into a conditional Amendment Agreement with the Subscribers on 25 March 2009, pursuant to which the Company and the Subscribers had 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 up to the date of Completion and the payment of the Upfront Fee to the Subscribers.

LETTER FROM THE BOARD

THE AMENDMENT AGREEMENT

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 Transaction; and
- (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 Convertible 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 Latest Practicable Date, Hezhong had already entered into the abovementioned undertaking. Should the conditions not be fulfilled on or before the fifth Business Day prior to 25 May 2009, the Amendment Agreement will lapse.

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 Repurchase 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

LETTER FROM THE BOARD

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:

	Existing terms	Proposed Amendments
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
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	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 conversion price will remain in the event of: <ol style="list-style-type: none">1) consolidation, subdivision or reclassification of Shares;2) capitalisation of profits or reserves;3) capital distribution;4) rights issue of shares or options over shares;5) rights issue of other securities;6) issues at less than market price;7) modification of rights of conversion; or8) other offers to Shareholders.
Redemption rate on maturity	125%	130%

LETTER FROM THE BOARD

Coupon	1.00% per annum, payable semi-annually in arrears	(i) from (and including) 25 December 2008 to (but excluding) 25 June 2009 at the rate of 1.00% per annum (ii) from (and including) 25 June 2009 to (but excluding) maturity or early redemption at the rate of 2.00% per annum payable semi-annually in arrears
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
Mandatory redemption by the Company on 25 June 2010 and 25 June 2011	N/A	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 Convertible Bonds so redeemed, together with any accrued and unpaid interest; and

LETTER FROM THE BOARD

- 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 Convertible Bonds so redeemed, together with any accrued and unpaid interest; or
 - (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 Convertible Bonds so redeemed, together with any accrued and unpaid interest.

**Future declaration
of dividends** N/A

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

LETTER FROM THE BOARD

Future borrowings N/A

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:

- (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;
- (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
- (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 has applied 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.

LETTER FROM THE BOARD

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;
- (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.

The revised conversion price of HK\$0.70 per Conversion Share also represents a premium of approximately 91.78% over the closing price of HK\$0.365 per Share as quoted on the GEM on the Latest Practicable Date.

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.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon allotment and issue of the Shares at the revised conversion price of HK\$0.70 per Conversion Share are as follows:

Name of Shareholders	As at the Latest Practicable Date		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 ⁽ⁱ⁾	946,921,542	48.95	946,921,542	43.66
Hao Yu ⁽ⁱⁱ⁾	945,755,542	48.89	945,755,542	43.60
Subscriber who owns more than 10% of Shares	254,298,000	13.15	368,294,657	16.98
Other Subscribers	13,440,000	0.69	134,142,343	6.18
Public shareholders	<u>719,742,000</u>	<u>37.21</u>	<u>719,742,000</u>	<u>33.18</u>
Total	<u><u>1,934,401,542</u></u>	<u><u>100.00</u></u>	<u><u>2,169,100,542</u></u>	<u><u>100.00</u></u>

Notes:

- (i) 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.
- (ii) Mr. Hao Yu is an executive Director and is interested in 40% of the issued share capital of Hezhong, and is therefore deemed to be interested in the 945,755,542 Shares held by Hezhong.

LETTER FROM THE BOARD

This summary table assumes, for illustration purposes, that there are no further issue of Shares after the Latest Practicable Date and prior to the conversion of all of the Convertible Bonds and no exercise of share options granted pursuant to the Company's share option scheme. The "Other Subscribers" will, for so long as they do not come to hold 10% or more of the Shares in issue, be considered part of the Company's public float.

FURTHER INFORMATION ON THE CONVERTIBLE BONDS

As at the Latest Practicable Date, 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 AGREEMENT AND BENEFITS TO THE COMPANY

The Board is of the view that the terms of the Transaction contemplated by the terms of the Amendment Agreement have been 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 Convertible Bonds back to the Company on 25 June 2009 in exchange for rescheduled terms of payment and other rights. Although the decrease in the conversion price of the Convertible Bonds will result in additional Shares being issued if the Convertible Bonds are converted, and therefore dilute the shareholdings of other Shareholders, had the Amendment Agreement not been entered into or if the Independent Shareholders do not approve the Transaction contemplated by the terms of the Amendment Agreement, it is unlikely that the Company will have sufficient cash reserves to satisfy its obligations in the event that the Subscribers exercise their put option (where notice is required to be given not earlier than 60 days and not later than 30 days prior to 25 June 2009). As the conversion price under the Outstanding 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. The recommendation to the Independent Shareholders by the Independent Board Committee is set out below.

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.

LETTER FROM THE BOARD

INFORMATION ON THE SUBSCRIBERS

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

GEM LISTING RULES IMPLICATIONS

One of the Subscribers, Perry Capital LLC, is a substantial Shareholder of the Company which, as at the Latest Practicable Date, holds 254,298,000 Shares, representing approximately 13.15% 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, Perry Capital LLC, 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 contemplated by the terms of the Amendment Agreement 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 Latest Practicable Date, 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, Hezhong and its ultimate beneficial owners have no other relationship with the Subscribers and Hezhong is therefore entitled to vote at the EGM on the resolution to approve the Transaction. Hezhong has undertaken to vote in favour of the Transaction at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, has been established for the purpose of advising and giving recommendation to the Independent Shareholders on the Transaction contemplated by the terms of the Amendment Agreement. VC Capital has been appointed to advise the Independent Board Committee in this regard.

EGM

Set out on pages 36 to 37 of this circular is a notice convening the EGM to be held at Unit 10, 33rd Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 4 May 2009 at 11 a.m. at which an ordinary resolution will be proposed to consider and, if thought fit, to approve the Transaction contemplated by the terms of the Amendment Agreement.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share

LETTER FROM THE BOARD

registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM as the case may be. Completion and delivery of the enclosed form of proxy will not preclude you from attending and voting at the EGM should you so wish.

RECOMMENDATION

The Board considers that the terms of the Transaction contemplated by the terms of the Amendment Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of EGM.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 15 to 16 of this circular which contains its views in relation to Transaction contemplated by the terms of the Amendment Agreement; and (ii) the letter from VC Capital, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transaction contemplated by the terms of the Amendment Agreement and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from VC Capital is set out on pages 17 to 30 of this circular.

The Independent Board Committee, having taken into account the advice of VC Capital, considers that the Transaction contemplated by the terms of the Amendment Agreement was entered into on normal commercial terms and that the terms of the Transaction contemplated by the terms of the Amendment Agreement are fair and reasonable and in the interests of the Group so far as the Independent Shareholders are concerned.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the "Appendix — General Information" to this circular.

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



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)

15 April 2009

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 15 April 2009 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you on the terms of the Transaction contemplated by the terms of the Amendment Agreement and whether such terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

VC Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the Transaction contemplated by the terms of the Amendment Agreement was entered into on normal commercial terms; and (ii) the terms of the Transaction contemplated by the terms of the Amendment Agreement are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 17 to 30 of the Circular.

You attention is also drawn to the letter from the Board set out on pages 4 to 14 of the Circular and the additional information set out in the appendix of the Circular.

Having considered the Transaction contemplated by the terms of the Amendment Agreement and the advice of VC Capital, we are of the opinion that (i) the Transaction contemplated by the terms of the Amendment Agreement was entered into on normal commercial terms; and (ii) the terms of the Transaction contemplated by the terms of the Amendment Agreement are fair and reasonable so far as

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend that you vote in favour of the resolution to be proposed at the EGM to approve the Transaction contemplated by the terms of the Amendment Agreement.

Yours faithfully,
For and on behalf of
Independent Board Committee of
ZHONGYU GAS HOLDINGS LIMITED

Mr. Wang Shunlong
Independent
non-executive Director

Dr. Luo Yongtai
Independent
non-executive Director

**Mr. Hung,
Randy King Kuen**
Independent
non-executive Director

LETTER FROM VC CAPITAL

The following is the full text of a letter from VC Capital for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transaction as contemplated under the Amendment Agreement:



15 April 2009

*To the Independent Board Committee and
the Independent Shareholders of
Zhongyu Gas Holdings Limited*

Dear Sir or Madam,

REPURCHASE OF CONVERTIBLE BONDS, ALTERATIONS IN THE TERMS OF CONVERTIBLE BONDS AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction contemplated by the terms of the Amendment Agreement, details of which are set out in the letter from the Board as contained in the circular of the Company dated 15 April 2009 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

One of the Subscribers, Perry Capital LLC, is a substantial Shareholder which, as at the Latest Practicable Date, held 254,298,000 Shares, representing approximately 13.15% 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 of 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 Latest Practicable Date held 13,440,000 Shares, representing approximately 0.69% of the issued share capital of the Company) and their ultimate beneficial owners are Independent Third Parties.

LETTER FROM VC CAPITAL

The Independent Board Committee, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, being all the independent non-executive Directors, has been established to advise on the fairness and reasonableness of the terms of the Transaction contemplated by the terms of the Amendment Agreement so far as the Independent Shareholders are concerned and as to whether it is in the interests of the Company and the Shareholders as a whole.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the Transaction contemplated by the terms of the Amendment Agreement is fair and reasonable so far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole.

VC Capital Limited (“**VC Capital**”) is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Transaction contemplated by the terms of the Amendment Agreement. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the executive Directors and senior management of the Group. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were prepared or made and will continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the executive Directors and senior management of the Group. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and the information provided to us.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

All the Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

LETTER FROM VC CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Transaction contemplated by the terms of the Amendment Agreement is on normal commercial terms, whether it is fair and reasonable so far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole, we have taken into account the following principal factors and reasons:

1. **Background and reasons for the Transaction contemplated by the terms of the Amendment Agreement**

The Amendment Agreement was entered into between the Company and the Subscribers on 25 March 2009 pursuant to which the Company and the Subscribers have conditionally agreed to alter the existing terms and conditions of the Convertible Bonds 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 up to the date of Completion and the payment of the Upfront Fee to the Subscribers.

As disclosed in the letter from the Board, 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 its obligations in the event that the Subscribers exercise their put option (where notice is required to be given not earlier than 60 days and not later than 30 days prior to 25 June 2009). Under the terms of the Bond Subscription Agreement, each of the Bondholders 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 with accrued and unpaid interest on 25 June 2009. With reference to the latest audited financial statements of the Company for the year ended 31 December 2008, the Company had bank balances and cash of approximately HK\$474.33 million as at 31 December 2008, out of which approximately HK\$412.20 million was denominated in Renminbi which cannot be freely converted into other currencies and approximately HK\$50.94 million and approximately HK\$11.19 million were denominated in United States dollars and Hong Kong dollars respectively. According to the information provided by the Company, almost all cash resources denominated in Renminbi were placed in the subsidiaries of the Company as their registered capital and/or working capital for their business operations and cannot be freely remitted out of the PRC pursuant to the relevant PRC regulations. As a result, the Company could only apply the dividends received from those subsidiaries to redeem the outstanding Convertible Bonds.

As confirmed by the Directors, they have considered other financing methods, such as bank borrowings, in addition to the Transaction, so as to prepare adequate financial resources to redeem the outstanding Convertible Bonds in full should the Subscribers elect to do so. Nevertheless, in view of the current global credit squeeze, debt financing and/or bank borrowings would inevitably incur higher interest costs to the Group and may only be obtained after much scrutiny by and lengthy negotiation with financial institutions.

LETTER FROM VC CAPITAL

In view of the fact that: (i) the majority of the Group's bank balances and cash are denominated in Renminbi which cannot be freely converted into other currencies or freely remitted out of the PRC for the redemption of the outstanding Convertible Bonds; (ii) it is unlikely that the Company will have sufficient cash reserves to satisfy its obligations in the event that the Subscribers exercise their put option (where notice is required to be given not earlier than 60 days and not later than 30 days prior to 25 June 2009) to require the Company to redeem the Convertible Bonds in full; (iii) it is uncertain whether the Group can obtain debt financing to redeem the outstanding Convertible Bonds in view of the current global credit squeeze; and (iv) even if the Group manages to obtain debt financing to redeem the outstanding Convertible Bonds, it is likely that negotiations for the financing would be lengthy and such debt financing would incur a higher interest cost to the Group with the current credit market situation, we concur with the Directors that the entering into of the Amendment Agreement is the best alternative to relieve the financial burden of the Company in respect of the Convertible Bonds and is in the interests of the Company and the Shareholders as a whole.

2. The Transaction

The Repurchase Bonds

As mentioned above, under the terms of the Bond Subscription Agreement, each Bondholder has the right to require the Company to redeem the Convertible Bonds in full or in part on 25 June 2009. By entering into the Amendment Agreement, the Company is only required to redeem 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 up to the date of Completion and is no longer needed to redeem the Convertible Bonds in full in the event that the Subscribers exercise their put option in full (where notice is required to be given not earlier than 60 days and not later than 30 days prior to 25 June 2009), in exchange for rescheduled terms of payment and other rights of the Convertible Bonds as amended by the Amendment Agreement.

As (i) under the Amendment Agreement, the price required to be paid by the Company to redeem the Repurchase Bonds is 110% of the principal amount of the Repurchase Bonds, which is the same as the original redemption price of the Convertible Bonds under the Bond Subscription Agreement; and (ii) the only payment required from the Company in exchange for a reduction of its liability under the Convertible Bonds is the Upfront Fee, which is not considered to be excessive as detailed under the paragraph headed "The Upfront Fee" below, we consider that it is a sensible arrangement for the Company to relieve its financial burden to redeem the Convertible Bonds in full and reduce part of its liability under the Convertible Bonds in the light of its available financial resources, as discussed in the above paragraph headed "Background and reasons for the Transaction contemplated by the terms of the Amendment Agreement", and that the redemption price of the Repurchase Bonds is fair and reasonable.

LETTER FROM VC CAPITAL

The Upfront Fee

We understand that it is a usual practice for banks to charge a facility fee in the range of between 1% and 2% of the facility amount for the provision of bank loans. Should the Company arrange a banking facility to redeem the Convertible Bonds in full or in part, the Company would inevitably incur such expenses. Given the Upfront Fee of US\$150,000 is approximately 0.71% of the principal amount of the Outstanding Bonds of US\$21,000,000, which is less than the level of facility fee ordinarily charged by banks for the provision of bank loans, we consider that the Upfront Fee of US\$150,000 is fair and reasonable and is not excessive.

Alterations of the terms and conditions of the Convertible Bonds

(i) Conversion price and adjustment of conversion price

With reference to the announcement of the Company dated 28 May 2007 (the “**2007 Announcement**”), pursuant to the terms of the Bond Subscription Agreement, the initial conversion price of the Convertible Bonds was HK\$1.456, subject to a reset mechanism but shall never be lower than the minimum reset conversion price of HK\$0.728 (the “**Minimum Reset Conversion Price**”). The initial price was at a premium of approximately 13.75% to the closing price of HK\$1.28 per Share as quoted on GEM on 23 May 2007, being the last trading day immediately prior to the suspension of trading in the Shares on GEM pending the release of the 2007 Announcement. Due to the change in the market price of the Shares, the conversion price of the Convertible Bonds had been adjusted downwards to HK\$0.968 with effect from 25 June 2008.

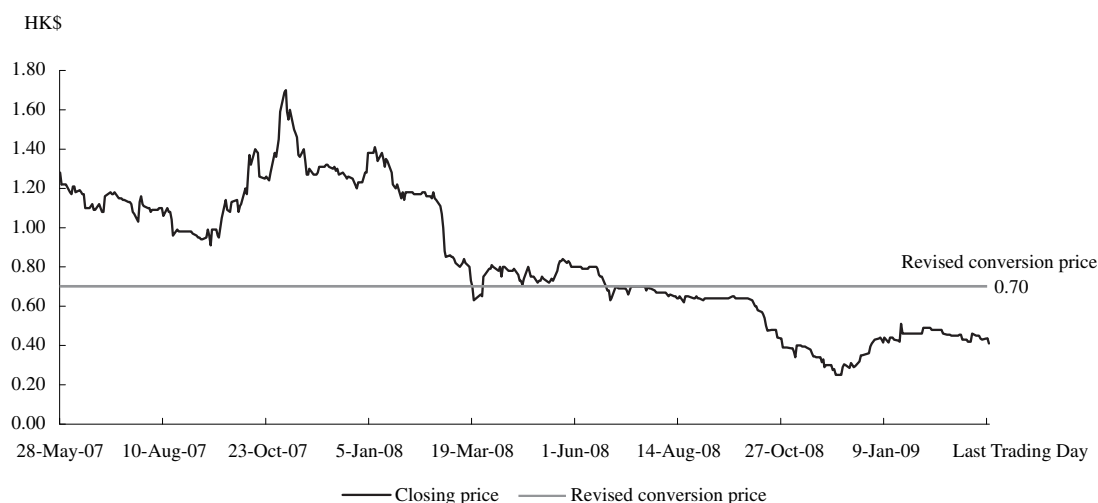
Under the Amendment Agreement, there shall be no adjustment of the initial conversion price as a result of changes in the market price of the Shares but the following adjustments to the conversion price will remain in the event of:

- 1) consolidation, subdivision or reclassification of Shares;
- 2) capitalisation of profits or reserves;
- 3) capital distribution;
- 4) rights issue of shares or options over shares;
- 5) rights issue of other securities;
- 6) issues at less than market price;
- 7) modification of rights of conversion; or
- 8) other offers to Shareholders.

We consider that the above adjustments are customary and fair and reasonable.

LETTER FROM VC CAPITAL

The following diagram shows the closing prices of the Shares from 28 May 2007, being the date of the Bond Subscription Agreement, up to and including the Last Trading Day: —



Source: Bloomberg

As shown above, the market price of the Shares was generally on a downward trend during the period under review. The Shares have been trading at a price lower than the Minimum Reset Conversion Price of HK\$0.728 since 23 June 2008. As advised by the Directors, the revised conversion price of HK\$0.70 per Conversion Share was determined after arms' length negotiations and with reference to the Minimum Reset Conversion Price and the price performance of the Shares. Notwithstanding that the revised conversion price of HK\$0.70 per Conversion Share is lower than the Minimum Reset Conversion Price of HK\$0.728, we are of the view that: (i) as the revised conversion price has been determined in light of the price performance of the Shares during the period under review; and (ii) the reset mechanism for the conversion price of the Outstanding Bonds will be deleted, which will avoid any future potential adverse dilution effect to the Shareholders (especially the Independent Shareholders) on their respective shareholdings in the Company, the revised conversion price of the Outstanding Bonds that is slightly lower than the Minimum Reset Conversion Price and the deletion of adjustments on the conversion price with reference to the market price of the Shares in the terms of the Outstanding Bonds are fair and reasonable so far as the Independent Shareholders are concerned.

(ii) *Coupon rate and yield to maturity*

Under the Amendment Agreement, the coupon is amended from 1.00% per annum to as follows:

- (i) from (and including) 25 December 2008 to (but excluding) 25 June 2009 at the rate of 1.00% per annum
- (ii) from (and including) 25 June 2009 to (but excluding) maturity or early redemption at the rate of 2.00% per annum

payable semi-annually in arrears.

LETTER FROM VC CAPITAL

To assess whether the increased coupon rate for the Outstanding Bonds is fair and reasonable, we compare the effective interest rate, i.e. yield to maturity (“YTM”), of the Outstanding Bonds with the historic effective interest rates paid by the Company for its borrowings.

We note from the annual report of the Company for the financial year ended 31 December 2008 that the effective interest rates paid by the Company for fixed-rate borrowings and variable-rate borrowings range from 6.8% to 10.0% and 4.9% to 8.4% respectively. As disclosed in the letter from the Board, the YTM of the Outstanding Bonds is approximately 6.23%, which falls within the range of the effective interest rates paid by the Company for its borrowings for the financial year ended 31 December 2008. Accordingly, we are of the view that the adjustments in the coupon rate and the YTM are in the interests of the Company and the Shareholders as a whole.

(iii) *Mandatory redemption by the Company on 25 June 2010 and 25 June 2011*

As stated in the letter from the Board, 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 the principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of the 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 the principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$3,150,000 in the principal amount of the Outstanding Bonds, at the redemption price of 120% of the US\$ principal amount of the Bonds so redeemed, together with any accrued and unpaid interest; or
 - (ii) if US\$2,100,000 or more in the principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$2,100,000 in the principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of the Bonds so redeemed, together with any accrued and unpaid interest.

Given that (i) the redemption rates provide the Company with financial flexibility to redeem the Outstanding Bonds; (ii) such alterations are consistent with other arrangements of the terms and conditions under the Amendment Agreement; and (iii) the alterations under the Amendment Agreement can effectively help the Company relieve its financial burden, we are of the view that such alterations are fair and reasonable.

LETTER FROM VC CAPITAL

(iv) *Future declaration of dividends*

Pursuant to the Amendment Agreement, any declaration of dividends and other capital distribution by the Company to the Shareholders will be subject to the prior written consent of all the Bondholders.

Notwithstanding that the above arrangement will restrict the return to the Shareholders, having considered the fact that: (i) the Bondholders are effectively creditors who customarily rank before a company's shareholders in an insolvent liquidation; and (ii) the entering into of the Amendment Agreement could help the Company relieve its financial burden, we consider it a fair and reasonable arrangement for both the Subscribers and the Company to impose this condition on the Company in respect of its rights to declare dividends and any other form of capital distribution under the Amendment Agreement.

(v) *Future borrowings*

Under the Amendment Agreement, 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:

- (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;
- (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
- (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.

Given that the Company is no longer required to redeem the Convertible Bonds in the event that the Subscribers exercise their put option in full or in part (where notice is required to be given not earlier than 60 days and not later than 30 days prior to 25 June 2009) and that the Company can be relieved from its financial burden, we consider that the above amendments are fair and reasonable as they provide flexibility to the Company to arrange alternative financings for redeeming the Outstanding Bonds in a cost effective manner in the light of the above scale on redemption price of the Outstanding Bonds.

LETTER FROM VC CAPITAL

Comparable analysis

In order to further assess whether the terms of the Amendment Agreement are fair and reasonable, we have identified, to the best of our knowledge and endeavours, the following 26 transactions involving new issues of convertible securities as announced by listed companies (the “**Comparables**”) for comparison purposes as shown in the table below. The Comparables are new issues of convertible securities as announced by listed companies since 25 September 2008, being six months prior to and up to and including the date of the Amendment Agreement (the “**Review Period**”), and exclude announcements by listed companies during the Review Period which involve (i) changes in the terms of such convertible securities, the issues of which were first announced outside of the Review Period; and (ii) issues of convertible securities as consideration (in full or in part) of a transaction. The Comparables are an exhaustive list of new issues of convertible securities during the Review Period as identified by us, to our best effort, in our research through published information based on the above criteria.

Table 1: New issue of convertible securities by listed companies during the Review Period

Company (Stock code)	Principal Amount	Coupon (%)	Maturity (Years)	Redemption price at maturity (%)	YTM (%)	Premium/ (Discount) of the initial conversion price over/(to) the closing price of shares on the last trading day (%) (Note 1)
Mingyuan Medicare Development Company Limited (233)	HK\$77.524 million	9.00	2.00	138.52	25.00	(14.35)
Mingyuan Medicare Development Company Limited (233)	HK\$155.048 million	9.00	2.00	138.52	25.00	11.35
Jackin International Holdings Limited (630)	HK\$177 million	12.00	3.00	100.00	12.00	N/A
Sino Gas Group Limited (260)	HK\$27.5 million	2.00	2.00	106.00	4.89	80.18
Sino Gas Group Limited (260)	HK\$61.2 million	2.00	2.00	106.00	4.89	80.18
Cosmopolitan International Holdings Limited (120)	HK\$28 million	0.00	2.00	110.38	5.00	(16.67)
COL Capital Limited (383)	HK\$300 million	9.00	3.00	100.00	9.00	(2.60)

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Company (Stock code)	Principal Amount	Coupon (%)	Maturity (Years)	Redemption price at maturity (%)	YTM (%)	Premium/ (Discount) of the initial conversion price over/(to) the closing price of shares on the last trading day (%) (Note 1)
Sino Katalytics Investment Corporation (2324)	HK\$8.1 million	10.00	1.00	100.00	10.00	12.50
SRE Group Limited (1207)	HK\$165 million	2.50	5.00	135.00	8.42	14.58
Golife Concepts Holdings Limited (8172)	HK\$100 million	0.00	10.00	100.00	0.00	(18.03)
Golife Concepts Holdings Limited (8172)	HK\$60 million	0.00	10.00	100.00	0.00	(18.03)
Smart Rich Energy Finance (Holdings) Ltd. (1051)	HK\$160.48 million	0.00	3.34	100.00	0.00	(10.53)
National Investments Fund Limited (1227)	HK\$350 million	2.00	3.00	N/A	N/A	(2.00)
Golden Resources Development International Limited (677)	HK\$72.8 million	2.00	5.00	N/A	N/A	4.42
Sino Union Petroleum & Chemical International Limited (346)	HK\$100 million	Floating rate	1.00	100.00	N/A	76.10
21 Holdings Limited (1003)	HK\$120 million	2.25	2.00	100.00	2.25	(69.00)
Brightoil Petroleum (Holdings) Limited (933)	HK\$115.9 million	0.00	3.00	100.00	0.00	0.00
Dragon Hill Wuling Automobile Holdings Limited (305)	HK\$100 million	6.00	5.00	100.00	6.00	12.12

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Company (Stock code)	Principal Amount	Coupon (%)	Maturity (Years)	Redemption price at maturity (%)	YTM (%)	Premium/ (Discount) of the initial conversion price over/(to) the closing price of shares on the last trading day (%) (Note 1)
Global Flex Holdings Limited (471)	HK\$21 million	0.00	2.00	125.00	10.70	194.10
Paradise Entertainment Limited (1180)	HK\$16 million	8.00	5.09	100.00	8.00	14.29
Paradise Entertainment Limited (1180)	HK\$96 million	8.00	5.09	100.00	8.00	14.29
Warderly International Holdings Limited (607)	HK\$84.4 million	0.00	5.00	N/A	N/A	(89.60)
China Solar Energy Holdings Limited (155)	HK\$21.2 million	Floating rate	2.00	N/A	N/A	0.00
China Solar Energy Holdings Limited (155)	HK\$22 million	Floating rate	2.00	N/A	N/A	3.77
Rising Development Holdings Limited (1004)	HK\$43.2 million	0.00	3.00	100.00	0.00	(13.04)
Intelli-Media Group (Holdings) Limited (8173)	EUR\$200 million	3.00	3.00	N/A	N/A	69.21
Average		3.77		107.97	7.32	13.33
Median		2.00		100.00	6.00	3.77
Maximum		12.00		138.52	25.00	194.10
Minimum		0.00		100.00	0.00	(89.60)

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Company (Stock code)	Principal Amount	Coupon (%)	Maturity (Years)	Redemption price at maturity (%)	YTM (%)	Premium/ (Discount) of the initial conversion price over/(to) the closing price of shares on the last trading day (%) (Note 1)
The Company (as amended by the Amendment Agreement)	US\$21,000,000	1.00 (from (and incl.) 25 Dec 2008 to (but excl.) 25 Jun 2009) or 2.00 (from (and incl.) 25 Jun 2009 to (but excl.) maturity or early redemption)		130.00	6.23	70.73 (Note 2)

Source: the Stock Exchange

Notes:

1. As calculated based on the initial conversion prices of the Comparables and the closing prices of the shares of such listed companies on the last trading day prior to the issue of their respective announcements.
2. As calculated based on the closing price of HK\$0.41 per Share as quoted on the GEM on the Last Trading Day.

From the above table, we note that the average coupon rate is approximately 3.77% as represented by the Comparables, with a range from 0.00% to 12.00%, while the average YTM is approximately 7.32%, with a range of 0.00% to 25.00%. The redemption price of the Comparables ranges from 100.00% to 138.52%. The coupon rate, the YTM and the redemption price of the Outstanding Bonds are all in line with the market as represented by the Comparables.

Under the Amendment Agreement, the redemption rate on maturity is amended from 125% to 130%. Having considered that: (i) the revised redemption rate on maturity of 130% is within the range of redemption price of the Comparables; and (ii) the entering into of the Amendment Agreement could help the Company relieve its financial burden in respect of the Convertible Bonds, we regard that such amendment is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM VC CAPITAL

We also note that whilst the revised conversion price for the Outstanding Bonds represents a premium of approximately 70.73% over the closing price of the Shares on the Last Trading Day, the discount/premium to/over the conversion price as represented by the Comparables ranges from a discount of 89.60% to a premium of 194.10%. The range of discount/premium to/over the conversion price of the Comparables is too broad for comparison purposes. Nevertheless, given that (i) the revised conversion price of the Outstanding Bonds of HK\$0.70 is close to the Minimum Reset Conversion Price of HK\$0.728 of the Convertible Bonds; (ii) the deletion of the reset mechanism for the conversion price of the Outstanding Bonds would avoid any potential adverse dilution effect to the Shareholders (especially the Independent Shareholders) on their respective shareholdings of the Company; and (iii) the general downward trend of the price of the Shares during the period under review as stated above, we are of the view that the revised conversion price is fair and reasonable.

3. Effects on the shareholding structure of the Company

	As at the Latest Practicable Date		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	
	<i>No. of Shares held</i>	<i>Approx. %</i>	<i>No. of Shares held</i>	<i>Approx. %</i>
Hezhong Investment Holding Co Ltd	945,755,542	48.89	945,755,542	43.60
Wang Wenliang (<i>Note 1</i>)	946,921,542	48.95	946,921,542	43.66
Hao Yu (<i>Note 2</i>)	945,755,542	48.89	945,755,542	43.60
Subscriber who owns more than 10% of the Shares	254,298,000	13.15	368,294,657	16.98
Other Subscribers	13,440,000	0.69	134,142,343	6.18
Public Shareholders	<u>719,742,000</u>	<u>37.21</u>	<u>719,742,000</u>	<u>33.18</u>
Total	<u><u>1,934,401,542</u></u>	<u><u>100.00</u></u>	<u><u>2,169,100,542</u></u>	<u><u>100.00</u></u>

Notes:

- 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.
- Mr. Hao Yu is an executive Director and is interested in 40% of the issued share capital of Hezhong, and is therefore deemed to be interested in the 945,755,542 Shares held by Hezhong.

LETTER FROM VC CAPITAL

As illustrated in the above table, the existing aggregate shareholding of the public Shareholders will decrease from approximately 37.21% as at the Latest Practicable Date to approximately 33.18% upon 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.

Taking into account the fact that: (i) the allotment and issue of Shares pursuant to the exercise in full of the Outstanding Bonds at the initial conversion price of HK\$0.70 per Share will not result in a material dilution effect on the existing Shareholders in relation to their respective shareholdings in the Company; and (ii) save for customary adjustments, there would not be any reset mechanism for the conversion price of the Outstanding Bonds such that it would not cause a potential material dilution effect on the shareholding of the Company, we consider such dilution or potential dilution to the shareholdings of the Independent Shareholders to be justifiable.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the Transaction contemplated by the terms of the Amendment Agreement is on normal commercial terms, that it is fair and reasonable so far as the Independent Shareholders are concerned and that it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transaction contemplated by the terms of the Amendment Agreement.

Yours faithfully

For and on behalf of

VC Capital Limited

Philip Chau

Keith Lou

Managing Director

Executive Director

1. RESPONSIBILITY STATEMENT

This circular for which the Directors of the Company 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 Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

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

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares of the Company

Names of Directors	Notes	Number of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	i	956,923,542	Beneficial and interest in corporation	49.47%
Mr. Hao Yu	ii	1,010,759,542	Beneficial and interest in corporation	52.25%
Mr. Lu Zhaoheng	iii	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	iv	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	v	12,000,000	Beneficial	0.62%
Dr. Luo Yongtai	vi	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	vi	2,000,000	Beneficial	0.10%

Notes:

- i. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 of the remaining 11,168,000 underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK\$0.31 per share during the period from 13 June 2006 to 12 June 2015 under the share option scheme adopted by the Company on 24 October 2003.
- ii. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issued share capital of Hezhong. The remaining 65,004,000 underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK\$0.31 per share during the period from 13 June 2006 to 12 June 2015 and HK\$0.56 per share during the period from 29 March 2007 to 28 March 2017 respectively under the share option scheme adopted by the Company on 24 October 2003.
- iii. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK\$0.31 per share for the period from 13 June 2006 to 12 June 2015 and HK\$0.80 per share for the period from 3 April 2010 to 2 April 2018 respectively under the share option scheme adopted by the Company on 24 October 2003.
- iv. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK\$0.31 per Share during the period from 13 June 2006 to 12 June 2015 under the share option scheme adopted by the Company on 24 October 2003.
- v. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK\$0.56 per Share during the period from 29 March 2007 to 28 March 2016 and HK\$0.80 per Share during the period from 3 April 2010 to 2 April 2018 respectively under the share option scheme adopted by the Company on 24 October 2003.
- vi. These underlying Shares are physically settled options entitling the holder thereof to subscribe for Shares at an exercise price of HK\$0.80 per Share during the period from 3 April 2010 to 2 April 2018 under the share option scheme adopted by the Company on 24 October 2003.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(ii) Interests of substantial Shareholders of the Company

So far as is known to the Directors, as at the Latest Practicable Date, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO,

or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the Shares of the Company

Name of Shareholder	<i>Notes</i>	Type of interests	Number of Shares	Approximate percentage of interests
Hezhong	i	Beneficial	945,755,542	48.89%
Perry Capital (Asia) Limited	ii	Investment manager	367,794,657	19.01%
Perry Capital LLC	ii	Investment manager	367,794,657	19.01%
Perry Corp.	ii	Investment manager	367,794,657	19.01%
Perry Richard Cayne	ii	Interest in corporation	367,794,657	19.01%
Perry Partners International, Inc.	n/a	Beneficial	305,311,668	15.78%

Notes:

- i. Hezhong is beneficially interested in 945,755,542 Shares, Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.
- ii. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne holds as to 100% equity interests of Perry Corp., Perry Corp. holds as to 40% equity interest of Perry Capital LLC. Perry Capital LLC holds as to 100% equity interest of Perry Capital (Asia) Limited. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder required to be kept by the Company under section 336 of the SFO.

3. DIRECTOR'S SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employed within one year without payment of compensation (other than statutory compensation)).

4. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
VC Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance

VC Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, VC Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. LITIGATION

So far as the Directors are aware, no member of the Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to pending or threatened against any member of the Group as at the Latest Practicable Date.

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or, any other conflicts of interest within the Group.

7. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Group was made up.

8. MISCELLANEOUS

- (i) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (ii) As at the Latest Practicable Date, none of VC Capital and any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (iii) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business in Hong Kong of the Company at Unit 10, 33rd Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including 29 April 2009 and at the EGM:

- (a) this circular;
- (b) the memorandum and articles of association of the Company;
- (c) the Amendment Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 15 to 16 of this circular;
- (e) the written consent from the expert referred to in the paragraph headed “Expert” in this appendix;
- (f) the letter of advice from VC Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 17 to 30 in this circular; and
- (g) the Bond Subscription Agreement.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of the shareholders of Zhongyu Gas Holdings Limited (the “Company”) will be held at Unit 10, 33rd Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 4 May 2009 at 11 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION NO. 1

“**THAT:**

- (a) the agreement dated 25 March 2009 entered into between the Company and the subscribers mentioned therein (the “**Amendment Agreement**”), a copy of which marked “A” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified;
- (b) the directors of the Company be and are hereby authorized to exercise all powers of the Company to repurchase the Repurchase Bonds (as defined in the Amendment Agreement) in accordance with the terms of the Amendment Agreement;
- (c) the directors of the Company be and are hereby authorized to allot and issue shares in the Company pursuant to the exercise of the Convertible Bonds (as amended by the Amendment Agreement); and
- (d) the directors of the Company be and are hereby authorized to take all actions and sign, execute and deliver all such agreements, deeds and documents for and on behalf of the Company as the directors may consider necessary or desirable for the purpose of effecting or implementing the Amendment Agreement.”

By order of the board of Directors of
Zhongyu Gas Holdings Limited
Wang Wenliang
Chairman

Hong Kong, 15 April 2009

NOTICE OF EGM

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

Principal place of business:
Unit 10, 33rd Floor
China Merchant Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

- (i) A member entitled to attend and vote at the EGM is entitled to appoint another person as his/her/its proxy to attend and, subject to the provisions of the articles of association of the Company, to vote instead of him/her/it. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the EGM. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member.
- (ii) A form of proxy for use at the EGM is enclosed with the circular of the Company dated 15 April 2009. Such form is also available at the website of the Stock Exchange at <http://www.hkex.com.hk>. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Delivery of an instrument appointing a proxy will not preclude a member from attending and voting at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iii) Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders are present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.