
THE 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 the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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



中裕燃气

中裕燃气控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

**DISCLOSEABLE TRANSACTION:
DISPOSAL OF SUBSIDIARIES**

A letter from the board of directors of the Company is set out on pages 3 to 7 of this circular.

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

6 January 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	3
Appendix — General information	8

DEFINITIONS

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

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day except Saturdays and Sundays on which banks in Hong Kong are open for business
“Company”	Zhongyu Gas Holdings Limited (中裕燃氣控股有限公司), a company incorporated in the Cayman Islands with limited liability, which is principally engaged in the investment holding and whose issued Shares are listed on GEM
“Completion”	completion of the S&P Agreement in accordance with the terms thereof
“Directors”	the directors, including the independent non-executive directors, of the Company from time to time
“GEM”	the Growth Enterprises Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hanzhong JV”	漢中中燃城市燃氣發展有限公司 (Hanzhong Central-Gas City Gas Development Company Limited), a Chinese-foreign equity joint venture company established in Hanzhong City, Shaanxi Province, PRC pursuant to a joint venture agreement made between ZIM and Hanzhong City Natural Gas Company Limited on 18 March 2004
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected persons (as defined under the GEM Listing Rules) of the Company and are not connected persons (as defined under the GEM Listing Rules) of the Company
“Kong Rise” or “Purchaser”	Kong Rise Holdings Limited (港昇控股有限公司), a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Ding
“Latest Practicable Date”	4 January 2006, 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

“Mr. Ding”	Mr. Ding Runhua (丁潤華), an Independent Third Party
“PRC”	the People’s Republic of China, which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Sale Loan”	outstanding balance of shareholder’s loan owed by ZIM to the Company as at the date of Completion which is unsecured, interest free and have no fixed terms of repayment. As at 31 October 2005, the Sale Loan amounted to about HK\$12,002,000
“Sale Share”	one share of US\$1.00 in the capital of ZIM, being the entire issued share capital of ZIM
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	shareholders of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“S&P Agreement”	the conditional sale and purchase agreement dated 16 December 2005 and entered into among the Company, Kong Rise and Mr. Ding in respect of the sale and purchase of the Sale Share and the Sale Loan to the Purchaser by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“ZIM”	Zhongyu Investment Management Limited, a company incorporated in the British Virgin Islands and is wholly owned by the Company
“ZIM Group”	ZIM and its subsidiary, Hanzhong JV
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	the United States dollars, the lawful currency of the United States
“%”	per cent.



中裕燃气

中裕燃气控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

Executive Directors:

Mr. Wang Wenliang (*Chairman*)
Mr. Hao Yu (*Chief Executive Officer*)
Mr. Lu Zhaoheng

Non-executive Directors:

Mr. Xu Yongxuan (*Vice-Chairman*)
Mr. Wang Lei
Mr. Nicholas John Ashley Rigg

Independent non-executive Directors:

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

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681 GT
George Town
Grand Cayman
British West Indies

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

Suite 3016, 30th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

6 January 2006

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION:
DISPOSAL OF SUBSIDIARIES**

INTRODUCTION

By the announcement dated 16 December 2005, the Board announced that subject to the condition as set out, the Company, Kong Rise and Mr. Ding entered into the S&P Agreement, pursuant to which the Company agreed to sell and Kong Rise agreed to purchase the Sale Share and the Sale Loan for a total consideration of HK\$8,500,000 payable in cash on Completion.

Mr. Ding, as guarantor of Kong Rise, agreed to guarantee all the duties and obligations of Kong Rise under the S&P Agreement.

LETTER FROM THE BOARD

The S&P Agreement constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

The purpose of this circular is to provide you with, among other matters, further details on the S&P Agreement.

THE S&P AGREEMENT

Date: 16 December 2005

Parties:

- (a) Vendor : the Company
- (b) Purchaser : Kong Rise
- (c) Guarantor : Mr. Ding

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Kong Rise, its ultimate beneficial owner and Mr. Ding is an Independent Third Party.

Kong Rise is an investment holding company wholly and beneficially owned by Mr. Ding.

Material terms

Nature

Pursuant to the S&P Agreement, the Company agreed to sell and Kong Rise agreed to purchase the Sale Share and the Sale Loan subject to and upon the terms of the S&P Agreement.

Mr. Ding, as guarantor of the Purchaser, agreed to guarantee all the duties and obligations of the Purchaser under the S&P Agreement.

Condition

Completion was subject to each of the Company, Kong Rise and Mr. Ding obtaining all necessary approvals and consents of the board of directors of the Company and Kong Rise in relation to the transactions contemplated under the S&P Agreement on or before 16 December 2005.

Consideration

The aggregate consideration for the Sale Shares and the Sale Loan was HK\$8,500,000 and was paid by the Purchaser in cash on Completion.

Such consideration was arrived at after arm's length negotiations between the parties to the S&P Agreement and was determined with reference to the unaudited consolidated net liabilities (including the Sale Loan) of ZIM Group as at 31 October 2005 in the sum of about HK\$4,140,000 and the Sale Loan in the sum of about HK\$12,002,000. The Board considers the consideration to be fair and reasonable.

LETTER FROM THE BOARD

Completion

As the condition had already been fulfilled on 16 December 2005, the S&P Agreement was completed on 21 December 2005.

After Completion, the Group had disposed of all equity interest in ZIM Group, and consequently, ZIM Group ceased to be subsidiaries of the Group. There are no restrictions as to subsequent disposal of the equity interest in ZIM Group by the Purchaser.

INFORMATION ON ZIM GROUP

ZIM was a company incorporated in the British Virgin Islands and was wholly owned by the Company before Completion. ZIM was principally engaged in investment holdings. On Completion, the only asset ZIM holds was the 90% of the registered capital of Hanzhong JV in the sum of HK\$9,000,000 which was the Group's total investment in ZIM Group.

Hanzhong JV would be established pursuant to a joint venture agreement entered into between ZIM and Hanzhong City Natural Gas Company Limited on 18 March 2004. Hanzhong JV was principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province, the PRC.

For the period from 22 March 2004 (being the date of formal establishment of Hanzhong JV) to 31 December 2004 and the ten months ended 31 October 2005, ZIM Group recorded a loss of about HK\$2,252,000 and HK\$2,903,000 before and after taxation (and extraordinary items) respectively based on the unaudited consolidated financial statements of ZIM Group and prepared in accordance with accounting principles generally accepted in Hong Kong. Please refer to the announcement and circular of the Company dated 18 March 2004 and 8 April 2004 respectively for further details in relation to Hanzhong JV.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Upon Completion, the Group recorded a gain of about HK\$638,000. Such gain was calculated with reference to the unaudited consolidated net liabilities of ZIM Group as at 31 October 2005 in the sum of about HK\$4,140,000 and the Sale Loan in the sum of about HK\$12,002,000.

The Directors intend to apply the entire sale proceeds from the disposal of ZIM Group for the Group's further investment opportunities in natural gas related industry which as at the Latest Practicable Date has not been identified.

The Group's asset will be increased by the gain recorded upon Completion. There will be no material effects on the earnings and liabilities of the Group.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

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

REASONS FOR THE DISPOSAL

Hanzhong City at which Hanzhong JV operated, is situated in the south-western part of Shaanxi Province, the PRC. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the operator of the west-east pipeline had recently delayed its plan to construct branch pipelines to reach Hanzhong City. As such, Hanzhong JV had been out of natural gas supply and therefore no turnover derived from sales of natural gas, which was expected to be a major component of the Group’s turnover in the near future by Hanzhong JV, had been recorded so far.

In view of the current state of the lack of natural gas supply in Hanzhong City which was beyond the Board’s original anticipation and outside the Group’s control, and the uncertainty as to when such construction of pipelines would commence or complete, the Board expected this undesirable situation would last for a long time. On the other hand, the Board had recently been approached by an Independent Third Party willing to acquire ZIM Group at a fair price. The Board believed that the entering into of the S&P Agreement could provide the Company an opportunity to realise its investments in ZIM Group and to focus on its other existing investment business. The Board considered such disposal would not have any material adverse impact to the business and financial position of the Group.

In view of the above, the Directors, including the non-executive Directors, considered that the terms of the S&P Agreement were entered into upon normal commercial terms following arm’s length negotiations among the parties and that the terms of the S&P Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATION

The S&P Agreement constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix of this circular.

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

1. RESPONSIBILITY STATEMENT

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

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular 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

- (a) **Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

- (i) *Long positions in the Shares:*

Name of Director	Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Wang Wenliang ("Mr. Wang")	<i>Note</i> Personal	10,002,000	
	Corporate	<u>904,417,297</u>	
		<u>914,419,297</u>	<u>67.38%</u>

Note: Hezhong Investment Holding Company Limited ("Hezhong") is the beneficial owner of 904,417,297 Shares. Mr. Wang is deemed to be interested in these Shares through his 52% interest in the issued share capital of Hezhong. He is interested in the underlying Shares of the 10,002,000 options held by him as stated in 2(a)(ii) below.

(ii) *Share options:*

Name of Directors	Number of options held	Nature of interest	Number of underlying Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Wang	10,002,000 (Notes 1 & 2)	Personal	10,002,000	0.73%
Mr. Hao Yu	8,004,000 (Note 1)	Personal	8,004,000	0.59%
Mr. Lu Zhaoheng	5,004,000 (Note 1)	Personal	5,004,000	0.37%
Mr. Xu Yongxuan	5,004,000 (Note 1)	Personal	5,004,000	0.37%

Notes:

- These options were granted under the share option scheme adopted by the Company on 24 October 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.310 per Share during the period from 13 June 2006 to 12 June 2015.
- The underlying Shares of these 10,002,000 options held by Mr. Wang duplicates his shareholding stated in section 2(a)(i) above.

(iii) *Long positions in the shares of an associated corporation:*

Name of Directors	Associated corporation	Percentage of shareholding
Mr. Wang	Hezhong	52%
Mr. Hao Yu	Hezhong	12%

Note: Hezhong is an associated corporation of the Company for the reason of its being a holding company of the Company by holding more than 50% of the entire issued share capital of the Company pursuant to s.308 of the SFO.

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 were required (i) 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.

(b) **Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) or corporation had, or was 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 were directly or indirectly interested in 10% 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:

Long positions in the Shares

Name of Shareholder	Type of interests	Number of Shares	Approximate percentage of interests
Hezhong (<i>Note 1</i>)	Beneficial	904,417,297	66.65%

Notes:

1. Mr. Wang Wenliang is deemed to be interested in the Shares through his 52% interest in the issued share capital of Hezhong.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company 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 10% 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.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other 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 be pending or threatened against the Company or any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, management shareholders or substantial shareholders or any of 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 has, any other conflict of interest which any such person has or may have within the Group.

6. MISCELLANEOUS

- (a) The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and the head office and principal place of business of the Company is located at Suite 3016, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (b) The principal share registrar and transfer office of the Company is Bank of Bermuda (Cayman) Limited located at 36C Bermuda House, 3rd Floor, P.O. Box 513 G.T., Dr. Roy's Drive, George Town, Grand Cayman, Cayman Islands, British West Indies. The branch share registrar and transfer office of the Company in Hong Kong is Secretaries Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary and qualified accountant of the Company is Mr. Lui Siu Keung who is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (d) The compliance officer of the Company is Mr. Hao Yu.
- (e) The audit committee of the Company comprises the three independent non-executive Directors, Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen.

The audit committee reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation.

Mr. Wang Shunlong, aged 41, is the chairman of the audit committee of the Company. He is the head of strategic department of SIIC Medical Science and Technology (Group) Limited. He graduated from Tsinghua University in the PRC with a doctoral degree in engineering and was employed by the Eindhoven University of Technology in The Netherlands as a research for three years. Mr. Wang has over nine years of experience in corporate management and investment planning. He joined the Group in July 2003.

Dr. Luo Yongtai, aged 59, is a member of the audit committee of the Company. He is a professor in management of Tianjin University of Finance and Economics, the head of the Microeconomic Institute of Tianjin University of Finance and Economics, a member of the committee of the Tianjin City People's Political Consultative Conference, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organizations.

Dr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Dr. Luo is also an independent director of two companies listed on the Shanghai Stock Exchange. He joined the Group in July 2003.

Mr. Hung, Randy King Kuen, aged 39, is a member of the audit committee of the Company. He holds a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong, and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, Mr. Hung is an independent non-executive director of Zhongyian International Limited (Stock Code: 2379) and ZZNode Holdings Company Limited (Stock Code: 2371). Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, deputy chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institute. Mr. Hung joined the Group on 30 September 2004.