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**中裕燃气**

**中裕燃气控股有限公司**

**ZHONGYU GAS HOLDINGS LIMITED**

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

(Stock Code: 8070)

**PLACING OF EXISTING SHARES,  
SUBSCRIPTION OF NEW SHARES  
AND  
RESUMPTION OF TRADING**

**Placing Agent**



**First Shanghai Securities Limited**

On 1 March 2007, Hezhong, the substantial Shareholder, entered into the Placing and Subscription Agreement with the Placing Agent and the Company, pursuant to which (i) Hezhong agreed to place, through the Placing Agent, the Placing Shares beneficially owned by Hezhong to not less than six Placees at a price of HK\$0.42 per Placing Share on a fully-underwritten basis; and (ii) the Company has conditionally agreed to allot and issue, and Hezhong has conditionally agreed to subscribe for the Subscription Shares at a price of HK\$0.42 per Subscription Share.

The Placing Shares represent approximately 20.00% of the issued share capital of the Company as at the date of this announcement and approximately 16.66% of the Company's enlarged issued share capital immediately after completion of the Placing and the Subscription.

At the request of the Company, dealings in the Shares on GEM has been suspended from 9:30 a.m. on 1 March 2007 pending the publication of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on GEM will effect from 9:30 a.m. on 2 March 2007.

## **THE PLACING AND SUBSCRIPTION AGREEMENT**

### **Date**

1 March 2007

### **Parties**

**Subscriber** Hezhong, a substantial Shareholder

**Placing Agent** First Shanghai Securities Limited, an Independent Third Party

### **The Company**

The Placing Agent has been appointed to place the Placing Shares on an full-underwritten basis and will receive an underwriting fee from the Placing. The underwriting fee was arrived at after arm's length negotiations between the Company and the Placing Agent.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the Placing and Subscription Agreement, (i) Hezhong, the substantial Shareholder, agreed to place, through the Placing Agent, the Placing Shares beneficially owned by Hezhong to not less than six Placees at a price of HK\$0.42 per Placing Share, on a fully-underwritten basis; and (ii) the Company has conditionally agreed to allot and issue, and Hezhong has conditionally agreed to subscribe for the Subscription Shares at a price of HK\$0.42 per Subscription Share. Details of the Placing and the Subscription are set out below:

#### **1. Placing**

##### **Placees**

The Placees and their ultimate beneficial owners shall be Independent Third Parties. It is expected that none of the Placees will become a substantial Shareholder immediately after completion of the Placing and the Subscription.

##### **Number of Placing Shares**

265,000,000 Shares, representing approximately 20.00% of the issued share capital of the Company as at the date of this announcement and approximately 16.66% of the Company's enlarged issued share capital immediately after completion of the Placing and the Subscription.

## **Placing price**

The Placing Price of HK\$0.42 per Placing Share represents:

- (i) a discount of approximately 18% to the closing price of HK\$0.510 per Share as quoted on GEM on the Last Trading Day, when the terms of the allotment were fixed;
- (ii) a discount of approximately 17% to the average closing price of HK\$0.506 per Share for the 5 consecutive trading days as quoted on GEM up to and including the Last Trading Day; and
- (iii) a discount of approximately 14% to the average closing price of HK\$0.487 per Share for the 10 consecutive trading days as quoted on GEM up to and including the Last Trading Day.

The Placing Price was determined and negotiated on an arm's length basis between the Company, Hezhong and the Placing Agent with reference to the closing prices as shown above. Given the size of the Placing Shares involved (which represent approximately 20.00% of the existing Shares in issue) and the relative discount to the closing price as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day, the Directors (including the independent non-executive Directors) consider that the Placing Price are fair and reasonable and are in the interests of the Company and Shareholders as a whole.

After taking into account all the related expenses of the Placing and the Subscription payable by the Company, the net Placing Price is approximately HK\$0.41 per Placing Share.

## **Completion of the Placing**

The Placing is unconditional. Completion of the Placing will take place on 8 March 2007 (or such other date as may be agreed by the Vendor and the Placing Agent). Under the Placing and Subscription Agreement, the Placing Shares will be placed by the Placing Agent to not less than six Placees who will be an Independent Third Parties of the Group.

## **Rights of the Placing Shares**

The Placing Shares will be sold free of any liens, charges, encumbrances and other third party rights and will be entitled to receive all future dividends and distributions which may be declared, made or paid by reference to a record date falling after the date of the completion of the Placing.

## **2. Subscription**

### **Number of Subscription Shares**

265,000,000 new Shares, which is equivalent to the Placing Shares sold by Hezhong and represents approximately 20.00% of the issued share capital of the Company as at the date of this announcement and approximately 16.66% of the Company's enlarged issued share capital immediately after completion of the Placing and the Subscription.

The Subscription Shares will be allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 24 April 2006. Under such mandate, the Company is authorised to allot, issue and deal with up to 265,037,108 unissued Shares. The Company has not exercised the power to allot and issue any Shares pursuant to such mandate prior to the Placing and the Subscription.

### **Subscription Price**

HK\$0.42 per Subscription Share, which is equivalent to the Placing Price, was determined and negotiated on an arm's length basis between the Company, Hezhong and the Placing Agent. As such, the Board considers that the Subscription Price is in the best interests of the Company and is fair and reasonable so far as the Shareholders are concerned. After taking into account all the related expenses of the Placing and the Subscription payable by the Company, the net Subscription Price is approximately HK\$0.41 per Subscription Share.

### **Conditions precedent**

The Subscription is conditional upon:

- (i) the GEM Listing Committee granting the listing of, and permission to deal in, the Subscription Shares; and
- (ii) the completion of the Placing.

None of the above conditions can be waived by the parties to the Placing and Subscription Agreement. In the event that the conditions of the Subscription are not fulfilled in full by 12 March 2007, all rights, obligations and liabilities of the Company, Hezhong and the Placing Agent in relation to the Subscription shall cease and determine and neither the Company, Hezhong and the Placing Agent shall have any claim against each other in respect of the Subscription.

### **Completion of the Subscription**

Completion of the Subscription will take place within next business day (or such other date as may be agreed by the Company) after the conditions of the Subscription have been fulfilled. The Subscription must be completed on or before 14 March 2007, being 14 days from the date of the Placing and Subscription Agreement. If the Subscription is to be completed thereafter, it will constitute a connected transaction under the GEM Listing Rules and require compliance with all the relevant requirements under Chapter 20 of the GEM Listing Rules, including but not limited to the issue of a separate announcement and approval of the independent Shareholders.

## Ranking and rights of the Subscription Shares

The Subscription Shares (when allotted, issued and fully paid) will rank pari passu with the Shares in issue on the date of allotment and issue of the Subscription Shares. Holders of fully-paid Subscription Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid by reference to a record date falling after the date of allotment of the Subscription Shares.

## Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on GEM.

## EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company as at the date of this announcement and immediately after completion of the Placing but before the Subscription, and immediately after completion of the Placing and the Subscription are as follows:

Name of Shareholders	As at the date of this announcement		Immediately after completion of Placing but before Subscription		Immediately after completion of Placing and Subscription	
	Number of Shares held		Number of Shares held		Number of Shares held	
	<i>(approx.)</i>		<i>(approx.)</i>		<i>(approx.)</i>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Hezhong	872,505,542	65.84	607,505,542	45.84	872,505,542	54.87
The Placees	—	—	265,000,000	20.00	265,000,000	16.66
Public	<u>452,680,000</u>	<u>34.16</u>	<u>452,680,000</u>	<u>34.16</u>	<u>452,680,000</u>	<u>28.47</u>
Total	<u>1,325,185,542</u>	<u>100</u>	<u>1,325,185,542</u>	<u>100</u>	<u>1,590,185,542</u>	<u>100</u>

## REASONS FOR THE PLACING AND THE SUBSCRIPTION AND USE OF PROCEEDS

Taking into account the good business opportunity and prospectus to allow the Group to tap into the upper stream coalbed methane supply market in the PRC, the Group has entered into the JV Agreement and Henan Cooperation MOU respectively with Henan Gas on 22 January 2007. Pursuant to the JV Agreement, Henan Zhongyu JV will be established in Zhengzhou City, Henan Province, the PRC. Henan Zhongyu JV will be engaged principally in the exploration, development and production of coalbed methane in Jiaozuo City, Henan Province, the PRC. Under the JV Agreement, the Group agrees, among other matters, that it will contribute to the registered capital amounting to approximately RMB45 million (equivalent to approximately HK\$45 million) in accordance with the terms of the JV

Agreement. The Henan Cooperation MOU sets out the general cooperation strategy in the exploration, development and utilization of coalbed methane between the Company and Henan Gas, and in particular, the Company shall have the first priority in the development of coalbed methane resources legally owned or controlled by Henan Gas and its shareholders. For more details of the JV Agreement and Henan Cooperation MOU, please refer to the announcement of the Company dated 22 January 2007 and the circular of the Company dated 12 February 2007. Accordingly, the Group is now necessary to raise capital to finance its capital contribution to Henan Zhongyu JV and fund its ongoing coalbed methane business plans. Taking into account the prevailing market conditions, the Board is of the view that the Placing and the Subscription is the most efficient and cost effective way for the Company to raise additional fund. In addition, the Board considers that the Placing and the Subscription would be a good opportunity for the Company to broaden its Shareholders base and reduce the Group's gearing ratio and strength the financial position of the Company.

The net proceeds from the issue of the Subscription Shares will be approximately HK\$108 million, of which, approximately HK\$45 million will be used for financing the capital contribution of the Group to Henan Zhongyu JV in accordance with the terms of the JV Agreement, approximately HK\$42 million will be used for financing further investment in other coalbed methane projects in the PRC and the balance of approximately HK\$21 million will be used for general working capital of the Group.

#### **FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST 12 MONTHS**

The Company had not conducted any fund raising activities involving issue of its securities in the 12 months immediately preceding the date of this announcement.

#### **SUSPENSION AND RESUMPTION OF DEALINGS IN THE SHARES**

At the request of the Company, dealings in the Shares on GEM has been suspended from 9:30 a.m. on 1 March 2007 pending the publication of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares on GEM will effect from 9:30 a.m. on 2 March 2007.

#### **BOARD OF DIRECTORS**

As at the date hereof, the executive Directors are Mr. Wang Wenliang, Mr. Hao Yu and Mr. Lu Zhaoheng. The non-executive Directors are Mr. Xu Yongxuan, Mr. Wang Lei and Mr. Nicholas John Ashley Rigg. The independent non-executive Directors are Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen.

#### **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors

“Company”	Zhongyu Gas Holdings Limited, 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
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	has the meaning ascribed thereto in the GEM Listing Rules
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Henan Cooperation MOU”	the memorandum of understanding dated 22 January 2007 entered into between the Company and Henan Gas
“Henan Gas”	河南省煤層氣開發利用有限公司 (Henan Province Coalbed Gas Development and Utilization Company Limited)#, a limited liability company established in Henan Province, the PRC
“Henan Zhongyu JV”	河南中裕煤層氣開發利用有限公司 (Henan Zhongyu Coalbed Gas Development Utilization Company Limited)#, a limited liability company to be established in Henan Province, the PRC in accordance with the terms of the JV Agreement, which name is subject to the approval of the relevant authorities
“Hezhong”	Hezhong Investment Holding Company Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 52% by Mr. Wang Wenliang, as to 12% by Mr. Hao Yu, as to 12% by Mr. Li Weisong, as to 12% by Mr. Yang Jianguo and as to the remaining 12% by Mr. Li Zifeng. As at the date of this announcement, Hezhong holds approximately 65.84% of the issued share capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party (Parties)”	independent third party (parties) not connected with the directors, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associate
“JV Agreement”	the joint venture agreement dated 22 January 2007 and entered into between Henan Gas and Zhongyu Coalbed Methane with respect to the formation of Henan Zhongyu JV

“Last Trading Day”	28 February 2007, being the last trading day immediately prior to the suspension of trading in Shares on GEM pending the release of this announcement
“Placees”	any institutional, corporate or individual investor(s) procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing and Subscription Agreement
“Placing”	the placing of 265,000,000 existing Shares under the Placing and Subscription Agreement
“Placing Agent”	First Shanghai Securities Limited, a deemed licensed corporation for types 1 (dealing in securities) and 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Placing and Subscription Agreement”	the placing and subscription agreement dated 1 March 2007 entered into between the Company, Hezhong and the Placing Agent in relation to the Placing and the Subscription
“Placing Price”	HK\$0.42 per Placing Share
“Placing Shares”	an aggregate of 265,000,000 existing Shares to be placed pursuant to the Placing and Subscription Agreement
“PRC”	The People’s Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administration Region of the PRC and Taiwan
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares pursuant to the Placing and Subscription Agreement
“Subscription Price”	HK\$0.42 per Subscription Share
“Subscription Shares”	an aggregate of 265,000,000 new Shares to be allotted and issued by the Company to Hezhong pursuant to the Placing and Subscription Agreement
“Zhongyu Coalbed Methane”	中裕煤層氣發展有限公司 (Zhongyu Coalbed Methane Development Limited), a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

Hong Kong, 1 March 2007

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

*For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 to RMB1.00. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:*

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

*This announcement will remain on the “Latest Company Announcements” page of the GEM website (www.hkgem.com) for at least 7 days from the date of its publication.*