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NewOcean Energy Holdings Limited

(新海能源集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 342)

Website: <http://www.newoceanhk.com>

DISCLOSEABLE AND CONNECTED TRANSACTION SUPPLEMENTAL AGREEMENT RELATING TO ACQUISITION OF MENGHUA LPG

A letter of recommendation from the Independent Board Committee to the Independent Shareholders and a letter of advice from Baron Capital to the Independent Board Committee and the Independent Shareholders are set out respectively on page 14 and pages 15 to 28 of this circular.

A notice convening a special general meeting of the Company to be held at 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong on Tuesday, 21 August 2007 at 11.00 a.m. is set out on pages 35 to 36 of this circular. Whether or not you intend to attend the meeting, 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 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 and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof if you so wish.

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DEFINITIONS

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

| | |
|-------------------------------|---|
| “Acquisition” | the acquisition of a 51% interest in the equity capital of Menghua LPG pursuant to the Subscription Agreement |
| “Baron Capital” | Baron Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| “Board” | the board of Director |
| “Call Option” | the option granted to NewOcean Transportation to acquire Party B’s remaining 10% equity interest in Menghua LPG after completion of the Further Acquisition |
| “Company” | NewOcean Energy Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange |
| “connected persons” | has the same meaning as defined in the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “First Year Profit” | the combined after tax profit of Menghua LPG for the first year after the Acquisition (i.e. the financial year ending 31 December 2007) |
| “Further Acquisition” | the acquisition of 39% equity interest in Menghua LPG by NewOcean Transportation pursuant to the Supplemental Agreement |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent committee of the Board, comprising all three independent non-executive Directors, namely Mr. Cheung Kwan Hung, Anthony, Mr. Chan Yuk Wai, Benedict and Dr. Xu Mingshe, established for the purpose of advising the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder |

DEFINITIONS

| | |
|----------------------------|--|
| “Independent Shareholders” | shareholders of the Company other than those who are required under the Listing Rules to abstain from voting on the ordinary resolution to be proposed at the SGM to approve the Supplemental Agreement and the transactions contemplated thereunder |
| “Latest Practicable Date” | 31 July 2007, being the latest practicable date before the printing of this circular for ascertaining certain information contained herein |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “LPG” | liquefied petroleum gas |
| “Menghua LPG” | Guangzhou Shi Menghua LPG Company Limited, an entity incorporated in the PRC with limited liabilities the equity capital of which is owned by Party B and Party C |
| “NewOcean Transportation” | Qingxin NewOcean Transportation Company Limited, an indirect wholly-owned subsidiary of the Company incorporated in the PRC |
| “Party B” | Mr. Hu Shifa (胡世發), a national of PRC |
| “Party C” | Madam Chen Weijiao (陳惠嬌) and Mr. Jiang Hong (江泓), respectively the spouse and a relative of Party B |
| “Put Option” | the option granted to Party B to require NewOcean Transportation to acquire Party B’s remaining 10% equity interest in Menghua LPG after completion of the Further Acquisition |
| “PRC” | the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

DEFINITIONS

| | |
|--------------------------|---|
| “SGM” | the special general meeting of the Company to be convened and held at 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong on Tuesday, 21 August 2007 at 11:00 a.m. (or any adjournment thereof), the notice of which is set out on pages 35 to 36 of this circular |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscription Agreement” | the agreement dated 27 December 2006, as varied by a supplemental agreement dated 29 December 2006, entered into between (1) NewOcean Transportation; (2) Party B; and (3) Party C in relation to the Acquisition by NewOcean Transportation of a 51% equity interest in Menghua LPG |
| “Supplemental Agreement” | the agreement dated 1 July 2007 entered into between (1) NewOcean Transportation; and (2) Party B which principally provides for modification of the arrangements for price and equity holding ratio adjustments under the Subscription Agreement, and the cancellation of Party B’s rights and obligations in respect of the First Year Profit |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “%” | per cent. |



NewOcean Energy Holdings Limited

(新海能源集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 342)

Website: <http://www.newoceanhk.com>

Executive Directors:

Shum Siu Hung (*Chairman*)

Chiu Sing Chung, Raymond

(Managing Director)

Shum Chun, Lawrence

Cen Ziniu

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Head office and principal place of business:

20th Floor, Times Tower

393 Jaffe Road, Wanchai

Hong Kong

Non-Executive Director:

Wu Hong Cho

Independent non-executive Directors:

Cheung Kwan Hung, Anthony

Chan Yuk Wai, Benedict

Dr. Xu Mingshe

2 August 2007

*To the Shareholders and, for information only,
holders of share options of the Company*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
SUPPLEMENTAL AGREEMENT RELATING TO
ACQUISITION OF MENGHUA LPG**

1. INTRODUCTION

The Board announced on 11 July 2007 that NewOcean Transportation and Party B entered into the Supplemental Agreement relating to the Acquisition Agreement. Under the Supplemental Agreement, the arrangements originally provided in the Subscription

* *for identification purposes only*

LETTER FROM THE BOARD

Agreement for price and equity holding ratio adjustments between NewOcean Transportation and Party B, together with Party B's rights and obligations in respect of the First Year Profit, are cancelled and replaced by: (a) the Further Acquisition; (b) the Call Option; and (c) the Put Option.

Each of the Further Acquisition, the Call Option and the Put Option constitutes a connected transaction for the Company. Accordingly, the Supplemental Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders by poll at the SGM under the Listing Rules. The Further Acquisition also constitutes a discloseable transaction for the Company under the Listing Rules.

The purpose of this circular is to give you (i) further information regarding the transactions under the Supplemental Agreement; (ii) the notice of the SGM; (iii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Supplemental Agreement; (iv) the letter of advice from Baron Capital to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Agreement; and (v) other information as required under the Listing Rules.

2. THE SUPPLEMENTAL AGREEMENT

2.1 Date

1 July 2007.

2.2 Parties

NewOcean Transportation and Party B.

Following the acquisition of 51% Menghua LPG by NewOcean Transportation under the Subscription Agreement, Party B has become a connected person to the Company under the Listing Rules by virtue of his remaining 49% equity interest in Menghua LPG.

2.3 Modifications to the Subscription Agreement

The Supplemental Agreement provided for the cancellation of relevant terms in the Subscription Agreement relating to: (a) Party B's obligations to guarantee the combined after tax profit of Menghua LPG for the first year (the "First Year Profit") to be not less than RMB10,000,000 (the "Guaranteed Profit"), and arrangements for Party B to be in charge of the management of Menghua LPG during the first year; (b) arrangements for price and equity holding ratio adjustments between NewOcean Transportation and Party B after the end of the first year, the adjustment included the acquisition of the remaining 49% in Menghua LPG by NewOcean

LETTER FROM THE BOARD

Transportation at a price linked to the First Year Profit; (c) Party B's entitlement to an earned out payment of RMB10,000,000 upon Menghua LPG achieving the Guaranteed Profit.

Also, under the Subscription Agreement as part of Party B's obligations in respect of the Guaranteed Profit: (a) Party B pledges the remaining 49% of Menghua LPG as security for his profit guarantee; and (b) NewOcean Transportation has the right to require Party B to repurchase the 51% interest in Menghua LPG if the Guaranteed Profit is not achieved. All such obligations on the part of Party B will lapse upon the cancellation of his obligations in respect of the profit guarantee.

The principal new terms under the Supplemental Agreement are:

(a) The Further Acquisition

Assets to be Acquired

NewOcean Transportation will acquire 39% in the equity capital of Menghua LPG currently held by Party B.

Consideration

RMB21,250,000 payable in cash as follows:

- (i) a deposit of RMB2,125,000 to be paid within 10 days after the receipt by NewOcean Transportation of hand-over documents relating to the management of Menghua LPG;
- (ii) a sum of RMB3,024,490 (being 39% of the amount of the register capital of Menghua LPG) to be paid at the same time when applications are made for registration of relevant changes in the business registration, and for other government approvals (if any); and
- (iii) the balance of RMB16,100,510 by one or more instalments at the election of NewOcean Transportation to be made on or before 31 August 2007 after the completion of the registration procedures for changes in business registration and after the completion of an audit on the accounts of Menghua LPG as at 30 June 2007.

The consideration of RMB21,250,000 for the 39% in Menghua LPG was arrived at through negotiation after taking into consideration the performance of Menghua LPG during the first 5 months immediately following the Acquisition. As at 31 May 2007 the management accounts (unaudited) of Menghua LPG show a net profit before and after tax of approximately RMB5,391,000.

LETTER FROM THE BOARD

Under the Subscription Agreement, assuming Menghua LPG achieves a First Year Profit of RMB10 million (i.e. the Guaranteed Profit), the price payable by NewOcean Transportation for the acquisition of 49% equity interest in Menghua LPG will be a sum of RMB24,500,000 (calculated at 5 time price/earning multiple). In addition, in respect of the 51% of Menghua LPG already acquired, an earned out payment of RMB10,000,000 will be payable by NewOcean Transportation, thereby increasing the acquisition cost of this 51% of Menghua LPG to RMB25,500,000. In comparison, under the Supplemental Agreement the consideration of RMB21,250,000 for 39% of Menghua LPG represents an approximately 28% discount to the aggregate amount of RMB29,500,000 that would have been payable by NewOcean Transportation under the same situation and for the same percentage interest (namely, RMB19,500,000 for 39% of Menghua LPG at 5 times price/earning multiple plus RMB10,000,000 earned out payment).

If NewOcean Transportation further exercises the Call Option (or Party B exercises the Put Option) in respect of the remaining 10% of Menghua LPG, the total consideration for 49% of Menghua LPG will be an aggregate sum of RMB25,750,000, representing an approximately 25% discount to the aggregate amount of RMB34,500,000 that would have been payable by NewOcean Transportation under the same situation (namely, RMB24,500,000 for 49% of Menghua LPG under the original terms of the Subscription Agreement plus RMB10,000,000 earned out payment).

(b) The Call Option

Party B's interest in the remaining 10% of Menghua LPG

NewOcean Transportation will provide to Party B a guaranteed yield of RMB600,000 per year on the remaining 10% equity interest held by Party B after completion of the acquisition of 39% equity interest in Menghua LPG. The guaranteed yield aims to provide to Party B a reasonable assurance for his interest as a minority equity holder. Upon the completion of the Supplement Agreement, Menghua LPG will be fully integrated into the management and business structure of the Group, and business decisions will be made with the profit of the whole Group, rather than that of individual subsidiaries, in mind. The amount of RMB600,000 per year represents a 40% discount to the amount of the First Year Profit that would have been attributable to Party B's 10% remaining interest in Menghua LPG, and is arrived at through negotiation after taking into consideration the reduction in management efforts required of Party B.

Principal terms of the Call Option

Party B will grant to NewOcean Transportation the Call Option exercisable during a period of 2 years (the “**Call Option Period**”) after the completion of the Further Acquisition to acquire the 10% remaining equity interest at the price of RMB4,500,000.

Consideration for the Call Option

The entry into the Supplemental Agreement by NewOcean Transportation

(c) The Put Option

Principal terms of the Put Option

NewOcean Transportation will grant to Party B the Put Option exercisable during a period of one month after the expiry of the Call Option Period (on condition that the Call Option has not been exercised) to require NewOcean Transportation to purchase the aforesaid 10% remaining equity interest in Menghua LPG at the price of RMB4,500,000.

Consideration for the Put Option

The entry into the Supplemental Agreement by Party B

2.4 Condition to the Supplemental Agreement

Completion of the matters under the Supplemental Agreement is subject to all regulatory approval (including approval by shareholders of the Company) being obtained. If the condition is not fulfilled on or before 30 September 2007, the Supplemental Agreement will lapse and cease to be binding on the parties.

3. INFORMATION ON MENGHUA LPG

Menghua LPG is a business entity with limited liability established in the PRC on 8 February 2005. The principal business of Menghua LPG is the wholesale and retail of LPG in and around Guangzhou and currently comprises: (a) business carried on at its main depot located in Tianhe, Guangzhou; (b) business carried on by Guangzhou Xubiao LPG Company Limited, a wholly-owned subsidiary, with its depot located in the north eastern outskirts of Guangzhou; (c) business carried out under a long term business subcontracting arrangement with a local depot owner located in Baiyun, Guangzhou expiring in July 2011. Under the subcontracting arrangement, in consideration of an annual subcontracting fee payable to the depot owner, the right to use and operate the relevant LPG assets, and

LETTER FROM THE BOARD

all revenue and profits derived therefrom, are vested in Menghua LPG; and (d) business carried out under a second long term business subcontracting arrangement with a local depot owner located in Panyu County next to Guangzhou expiring in December 2012. The subcontracting arrangement is in similar terms to the Baiyun subcontract referred to in (c) above. Based on the unaudited financial statements of Menghua LPG as at 31 May 2007, the combined turnover and net profits of Menghua LPG for the 5 months ending on 31 May 2007, and the combined assets and liabilities as at the 31 May 2007 (with comparative figures for the 10 months ended 31 October 2006 and the combined turnover and net profit for the 12 months ended 31 December 2006) are as follows:

| | 5 months ended 31 May 2007 | 10 months ended 31 October 2006 | 12 months ended 31 December 2006 |
|---|---|--|---|
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| Turnover | 135,795,896 | 92,967,400 | 116,905,691 |
| Net Profit/(Loss) before and after tax | 5,391,377 | (1,024,027) | (60,136) |
| | As at 31 May 2007 | As at 31 October 2006 | |
| | <i>RMB</i> | <i>RMB</i> | |
| Total Assets (<i>Note</i>) | 39,329,056 | 16,639,082 | |
| Total Liabilities | 10,604,100 | 13,620,793 | |
| Net Assets | 28,724,956 | 3,018,289 | |

Note:

Not included in the value of the total assets of Menghua LPG as at 31 October 2006 is a fleet of 39 LPG tankers and delivery vehicles which were then held in the names of contractors and business associates of Menghua LPG that were licensed to operate LPG transportation business.

4. INFORMATION ON THE GROUP

The principal activities of the Group are the sale and distribution of LPG and leasing of property, plant and equipment. As announced by the Company on 22 June 2006, the Company entered into an agreement with Caltex South China Investment Limited for a joint venture construction and operation of a loading and offloading base for petroleum products in Zhuhai, PRC.

LETTER FROM THE BOARD

5. REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT

The Group has been strategically expanding its retail network by acquiring existing LPG businesses operated by third parties, and it has substantial experience in the turn-around of loss making businesses. The following table shows the acquisitions made by the Group from 2001 to 2006:

| Date of Acquisition | Entity Acquired | Location | Storage Capacity (MT) | Number of Retail Outlets | Local Market Share (approx) |
|---------------------|---|---------------------|-----------------------|--------------------------|-----------------------------|
| October 2001 | Quilin NewOcean Energy Development Co. Ltd. | Guilin, Guangxi | 175 | 17 | 20% |
| October 2001 | Wuzhou NewOcean Gas Co. Ltd. | Wuzhou, Guangxi | 150 | 22 | 25% |
| March 2002 | Cangwu NewOcean Gas Co. Ltd. | Cangwu, Guangxi | 100 | 1 | 40% |
| September 2002 | Lipu NewOcean Gas Co. Ltd. | Lipu, Guangxi | 100 | 11 | 40% |
| January 2003 | Qingxin Baifuyang Petrochemical Co. Ltd. | Qingyuan, Guangdong | 200 | 31 | 20% |
| April 2004 | Guangzhou Qiaoxin Gas Co. Ltd. | Huadu, Guangdong | 50 | 4 | 30% |
| July 2004 | Guilin NewOcean Gas Co. Ltd. | Guilin, Guangxi | 75 | 34 | 10% |
| January 2005 | Qingxin Yong Long Gas and Chemical Co. Ltd. | Qingyuan, Guangdong | 200 | 30 | 20% |
| February 2006 | Shenzhen Baorun Gas Co. Ltd. | Shenzhen, Guangdong | 250 | 22 | 15% |
| | | Total | <u>1,300</u> | <u>172</u> | |

Menghua LPG, which had been a loss making company prior to the end of the year 2006, fits the expansion model of the Group as is evident from the above table. It is located in the Guangzhou City, Guangdong, one of the largest markets for domestic LPG in China and is estimated to have approximately 11.5% market share in the city. After the Acquisition, Menghua LPG achieved a turn-around, its unaudited combined management accounts show a profit of approximately RMB5,390,000 for the 5 months ended 31 May 2006.

The original terms in the Subscription Agreement placed Menghua LPG under the management of Party B during the first year after the Acquisition, and the First Year Profit was used as a yardstick in determining Menghua LPG's individual business performance. The payments to Party B under the Subscription Agreement are also linked to the First Year

LETTER FROM THE BOARD

Profit. This arrangement reduces the investment risks of the Group and it has provided incentive to Party B. However, with the quick turn-around achieved by Menghua LPG, the need to observe Menghua LPG's business performance over a full year has diminished. The Directors are of the view that a faster integration of the management and businesses of Menghua LPG with the rest of the Group under the Supplemental Agreement will be beneficial to the overall profitability of the Group.

The Supplemental Agreement also fixes the acquisition cost for the equity interest in Menghua LPG and avoids the need for price adjustment and the uncertainties involved. Under the payment scheme as modified by the Supplemental Agreement, the total payment to be made by NewOcean Transportation for acquisition of the entire equity interest of Menghua LPG (presuming either the Call Option or the Put Option will be exercised) is the fixed sum of RMB41,250,000. Whilst the Director are unable to accurately predict the First Year Profit of Menghua LPG, basing on its performance for the first 5 months of 2007 the Directors believe the new payment scheme may provide a considerable discount from the aggregate amount that would have to be paid by NewOcean Transportation in the event the Guaranteed Profit is achieved and the acquisition of Menghua LPG were to proceed under the original terms of the Subscription Agreement.

6. POSSIBLE FINANCIAL IMPACT

The combined value of the net assets of Menghua LPG as shown in its management accounts is RMB28,724,956 as at 31 May 2007. The consideration of RMB21,250,000 for the acquisition of 39% of Menghua LPG under the Supplemental agreement, aggregated together with the amount of RMB15,500,000 already paid under the Subscription Agreement and the amount of RMB4,500,000 payable on exercise of the Call Option (or exercise of the Put Option by Party B), will exceed the value of Menghua LPG's net assets. The goodwill that will arise on completion of the matters in the Supplemental Agreement will need to be tested annually for impairment. Given the profitable operations of Menghua LPG, the Directors consider it unlikely that completion of the Supplemental Agreement will impact the Group's assets or profits adversely.

The consideration payable by NewOcean Transportation under the Supplemental Agreement will be financed by internal resources of the Group.

7. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Party B was beneficially interested in 49% of Menghua LPG. Pursuant to Rule 14A.11(1) of the Listing Rules, Party B is a connected person to the Company. Accordingly, the Supplemental Agreement and the transactions thereunder constitute connected transactions for the Company and are subject to the approval of the Independent Shareholders by poll at the SGM under the Listing Rules. The Further Acquisition also constitutes a discloseable transaction for the Company under the Listing Rules.

LETTER FROM THE BOARD

Baron Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder. Your attention is drawn to their letter of advice set out on pages 15 to 28 of this circular.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Cheung Kwan Hung, Anthony, Mr. Chan Yuk Wai, Benedict and Dr. Xu Mingshe, has been established to advise the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder. Your attention is also drawn to the letter of recommendation from the Independent Board Committee set out on page 14 of this circular.

8. SGM

A notice convening the SGM is set out on pages 35 to 36 of this circular. At the SGM an ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Supplemental Agreement and the transactions contemplated thereunder, and votes of the Independent Shareholders will be taken on a poll. The results of voting taken on a poll at the SGM will be announced by the Company in accordance with the Listing Rules.

Whether or not you will be able to attend the SGM, 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 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 and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

In relation to any Shares held by Party B and his associates (as defined in the Listing Rules), Party B and his associates shall be required to abstain from voting such Shares at the SGM in respect of the proposed resolution to approve the Supplemental Agreement. Party B has confirmed to the Company that none of he or his associates has any shareholding in the Company as at the Latest Practicable Date.

Uniocean Investments Limited ("Uniocean") and Mr. Shum Siu Hung ("Mr Shum"), together being the controlling shareholders of the Company, have confirmed that neither of them has a material interest under the Supplemental Agreement. Accordingly Uniocean, Mr. Shum and their respective associates will not be required to abstain from voting at the SGM in respect of the proposed resolution to approve the Supplemental Agreement

LETTER FROM THE BOARD

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, of the other shareholders of the Company, none has a material interest under the Supplemental Agreement. Accordingly no shareholder will be required to abstain from voting at the SGM in respect of the proposed resolution to approve the Supplemental Agreement.

The Board recommends the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of the SGM to approve the Supplemental Agreement and the transactions contemplated thereunder.

9. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
By Order of the Board
NewOcean Energy Holdings Limited
Shum Siu Hung
Chairman



NewOcean Energy Holdings Limited

(新海能源集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 342)

Website: <http://www.newoceanhk.com>

2 August 2007

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
SUPPLEMENTAL AGREEMENT RELATING TO
ACQUISITION OF MENGHUA LPG**

We refer to the circular dated 2 August 2007 issued by NewOcean Energy Holdings Limited of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in this circular, unless the context otherwise requires. We have been appointed by the Board as the Independent Board Committee to give you a recommendation in respect of the terms of the Supplemental Agreement and the transactions thereunder.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 13 of the circular which sets out, among other things, information relating to the Supplemental Agreement, and the letter from Baron Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 14 to 18 of the circular which contains its advice to us and to you in relation to the Supplemental Agreement.

Having considered the terms of the Supplemental Agreement and taken into account the advice of Baron Capital, we consider that the terms of the Supplemental Agreement are in the interests of the Group and the Independent Shareholders as a whole and are fair and reasonable so far as the Group and the Independent Shareholders are concerned. As such, we would recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Supplemental Agreement and the transactions thereunder.

Yours faithfully,
Independent Board Committee

Cheung Kwan Hung, Anthony
*Independent
non-executive Director*

Chan Yuk Wai, Benedict
*Independent
non-executive Director*

Xu Mingshe
*Independent
non-executive Director*

* *for identification purposes only*

LETTER FROM BARON CAPITAL

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Baron Capital dated 2 August 2007 prepared for the purpose of incorporation in this circular:



4th Floor, Aon China Building
29 Queen's Road Central
Central, Hong Kong

2 August 2007

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION SUPPLEMENTAL AGREEMENT RELATING TO ACQUISITION OF MENGHUA LPG

INTRODUCTION

We refer to our appointment by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Agreement, details of which are set out in the section headed "Letter from the Board" contained in the circular of the Company dated 2 August 2007 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 11 July 2007, the Company announced that, among other things, on 1 July 2007, NewOcean Transportation (an indirect wholly-owned subsidiary of the Company) and Party B entered into the Supplemental Agreement pursuant to which the arrangements originally provided in the Subscription Agreement for price and equity holding ratio adjustments between NewOcean Transportation and Party B and Party B's rights and obligations in respect of the First Year Profit are cancelled and replaced by: (a) the Further Acquisition; (b) the Call Option; and (c) the Put Option.

As at the Latest Practicable Date, Party B was beneficially interested in 49% of Menghua LPG. Pursuant to Rule 14A.11(1) of the Listing Rules, Party B is a connected person to the Company under the Listing Rules. Accordingly, the Supplemental Agreement and the transactions contemplated thereunder constitute connected transactions for the Company and are subject to the approval of the Independent Shareholders by poll at the SGM under the Listing Rules.

LETTER FROM BARON CAPITAL

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Cheung Kwan Hung, Anthony, Mr. Chan Yuk Wai, Benedict and Dr. Xu Mingshe, has been established to advise the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder. We, Baron Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In arriving at our opinion and recommendation, we have relied on the information and representations contained or referred to in the Circular and the information supplied and the opinions expressed by the Directors and the management of the Company. We have assumed that the information and representations contained or referred to in the Circular and the information supplied and the opinion expressed by the Directors and the management of the Company are true, accurate and complete at the time they were made and continue to be so at the date of the Circular.

We consider that we have been provided with sufficient information to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us to form our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

Having made all reasonable enquiries, the Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and further confirmed that, to their best knowledge and belief, there are no other facts or representations the omission of which would make any statements in the Circular, including this letter, misleading.

We have not, however, conducted any independent verification on the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the transactions contemplated under the Supplemental Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Agreement, we have taken the following principal factors and reasons into consideration:

1. Background of the Supplemental Agreement

Information on Menghua LPG

As stated in the paragraph headed “Information on Menghua LPG” under the section headed “Letter from the Board” in the Circular, Menghua LPG is a business entity with limited liability established in the PRC on 8 February 2005. The principal business of Menghua LPG is the wholesale and retail of LPG in and around Guangzhou and currently comprises: (a) business carried on at its main depot located in Tianhe, Guangzhou; (b) business carried on by Guangzhou Xubiao LPG Company Limited, a wholly-owned subsidiary, with its depot located in the north eastern outskirts of Guangzhou; (c) business carried out under a long term business subcontracting arrangement with a local depot owner located in Baiyun, Guangzhou expiring in July 2011. Under the subcontracting arrangement, in consideration of an annual subcontracting fee payable to the depot owner, the right to use and operate the relevant LPG assets, and all revenue and profits derived therefrom, are vested in Menghua LPG; and (d) business carried out under a second long term business subcontracting arrangement with a local depot owner located in Panyu County next to Guangzhou expiring in December 2012. The subcontracting arrangement is in similar terms to the Baiyun subcontract referred to in (c) above. As advised by the Company, the majority of customers of Menghua LPG are domestic consumers who mainly use LPG for residential purposes.

As stated in the paragraph headed “Reasons for and benefits of the Supplemental Agreement” under the section headed “Letter from the Board” in the Circular, Menghua LPG achieved a turn-around after the Acquisition. As stated in the paragraph headed “Information on Menghua LPG” under the section headed “Letter from the Board” in the Circular, Menghua LPG recorded an unaudited net profits before and after tax of approximately RMB5,390,000 for the 5 month ended 31 May 2007 as compared to the net loss before and after tax of RMB60,136 for the 12 months ended 31 December 2006. The turnover of Menghua LPG for the 5 months ended 31 May 2007 of approximately RMB135,800,000 has already exceeded the turnover of approximately RMB116,910,000 for the 12 months ended 31 December 2006. The net assets of Menghua LPG has increased from approximately RMB3,020,000 as at 31 October 2006 to approximately RMB28,720,000 as at 31 May 2007.

The Subscription Agreement

On 4 January 2007, the Company announced that, on 27 December 2006, NewOcean Transportation, an indirect wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Party B and Party C pursuant to which NewOcean Transportation agreed to acquire 51% of the entire equity interest in Menghua LPG by way of contribution to the registered capital of Menghua LPG at a consideration of RMB15,500,000 (approximately HK\$15,350,000) with an additional payment of RMB10,000,000 (approximately HK\$9,900,000) payable conditional on Menghua LPG achieving the First Year Profit of not less than RMB10,000,000 (approximately HK\$9,900,000) (the “Guaranteed Profit”). Before completion of the Acquisition, Menghua LPG was owned as to 75% by Party B and as to 25% by Party C. As condition precedent to the Acquisition, Party C would transfer their 25% total interests in Menghua LPG to Party B. Upon completion of the Acquisition, Menghua was owned as to 51% by NewOcean Transportation and as to 49% by Party B.

Under the Subscription Agreement, Party B guaranteed the amount under the Guaranteed Profit and the obligations of Party B relating to such Guaranteed Profit will be secured by a pledge of the 49% interest in Menghua LPG held by Party B. On condition that Menghua LPG achieves the Guaranteed Profit, the consideration for the Acquisition will be adjusted upwards by an additional payment of RMB10,000,000 (approximately HK\$9,900,000) from NewOcean Transportation. In addition, Party B shall have the right exercisable during the period of 30 days from the end of the first year after the Acquisition to require NewOcean Transportation to purchase his 49% interest in Menghua LPG at a price equal to 5 times the First Year Profit, subject to a maximum of RMB12,000,000, attributable to his 49% interest.

In the event that Menghua LPG does not achieve the Guaranteed Profit, NewOcean Transportation shall have the right to require Party B to repurchase the 51% interest in Menghua LPG acquired by NewOcean Transportation. The repurchase price in such event is RMB15,500,000 plus the portion of the First Year Profit attributable to the 51% interest acquired by NewOcean Transportation. As alternatives to repurchase by Party B, depending on the amount of the First Year Profit, NewOcean Transportation may elect:

- (a) to maintain a 51:49 equity holding ratio with Party B, but the additional payment of RMB10,000,000 which Party B would have received if Menghua LPG had met the Guaranteed Profit will be reduced to reflect a price/earning ratio of 5 times for the 51% interest acquired by NewOcean Transportation, or, in the case the First Year Profit is below approximately RMB6,080,000, no additional payment will be payable; or
- (b) to purchase the remaining 49% interest in Menghua LPG from Party B at a price which, when aggregated with the consideration of RMB15,550,000 already paid by NewOcean Transportation, equals 5 times the First Year Profit; or

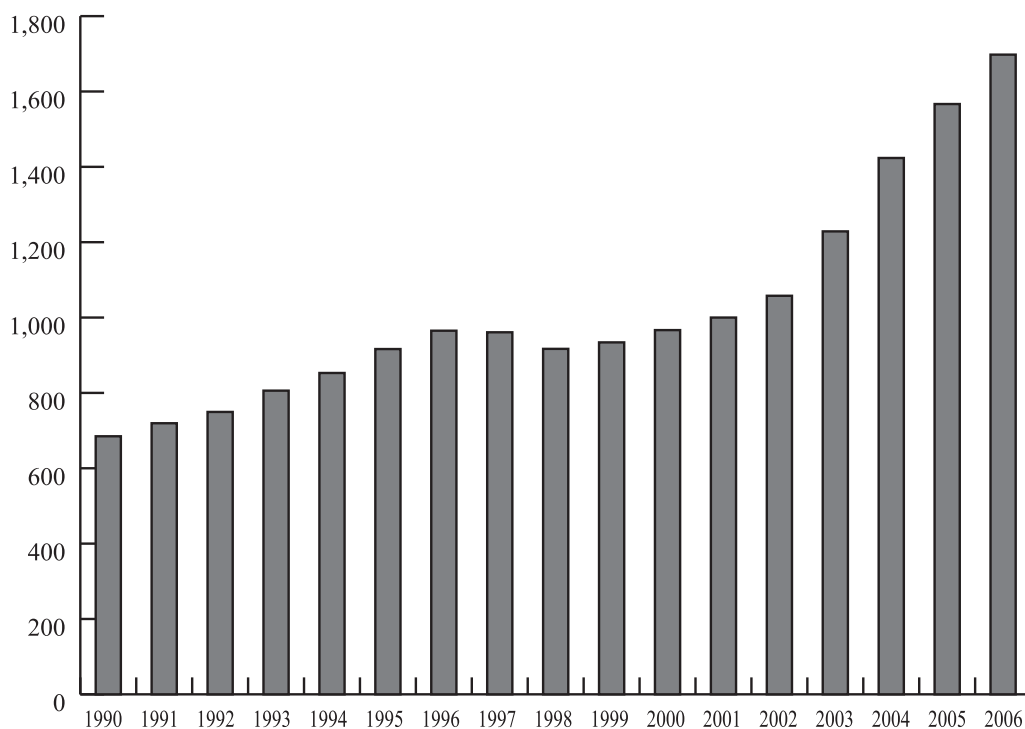
- (c) to require Party B to transfer to NewOcean Transportation such portion of its equity interest at nil consideration as compensation for the shortfall in NewOcean Transportation's proportional share of the Guaranteed Profit. The portion of the equity interest to be transferred will be valued at 5 times the attributable First Year Profit.

2. Overview of the LPG market in the PRC

According to the BP Statistical Review of World Energy June 2007, the PRC was the second largest energy consumption market in the world in 2006, with approximately 1,697,800,000 tons of oil equivalent of primary energy consumed during that year. Primary energy sources in the PRC include coal, natural gas, oil, nuclear power and hydroelectric power. Based on the BP Statistical Review of World Energy June 2007, China's primary energy consumption in 2006 accounted for approximately 15.60% of the total world energy consumption. Chart 1 below shows the total energy consumption in the PRC from 1990-2006.

Chart 1— PRC primary energy consumption

million tons oil equivalent

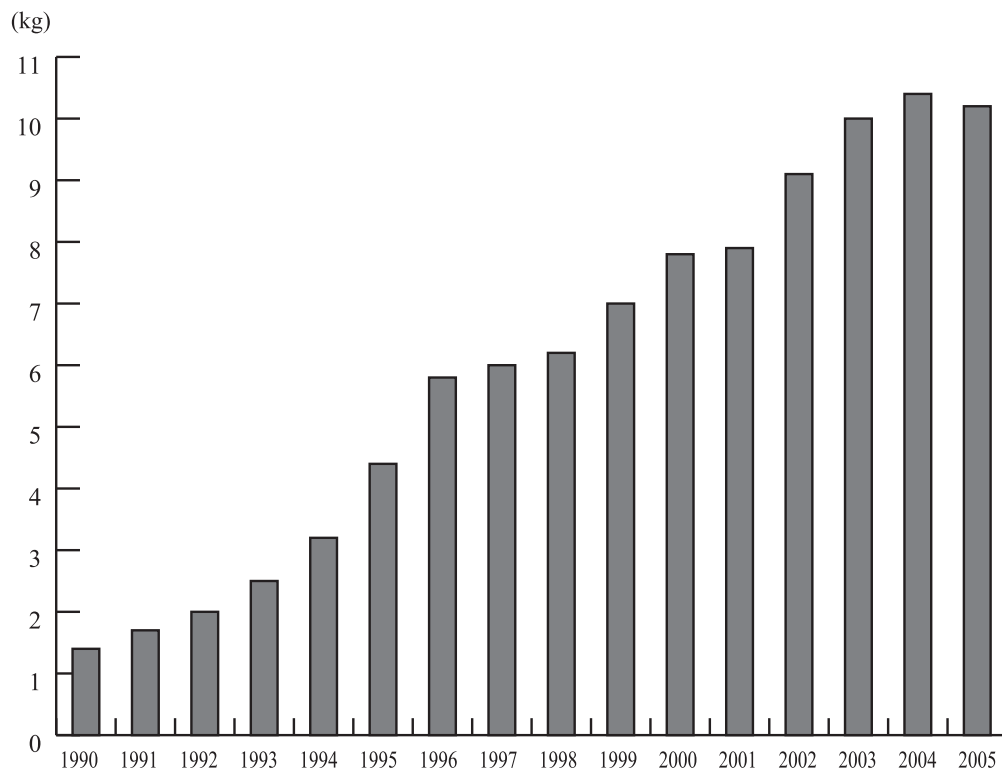


Source: BP Statistical Review of World Energy June 2007

According to the China Statistical Yearbook 2006 compiled by the National Bureau of Statistics of China, the annual LPG consumption for non-production purpose has increased steadily from approximately 9,880,000 tons in 2000 to approximately 13,290,000 tons in

2005. The annual per capita LPG consumption for non-production purpose has also shown a continuously upward trend. Chart 2 below depicts the annual per capita consumption of LPG for non-production purpose in the PRC from 1990-2005.

Chart 2 — Annual per capita LPG consumption for non-production purpose in the PRC



Source: China Statistical Yearbook 2006

From Charts 1 and 2 above, the primary energy consumption and the LPG consumption for non-production purpose in the PRC showed an increasing trend. According to the National Bureau of Statistics of China, China's GDP increased from 10.40% (revised) in 2005 to 11.10% (revised) in 2006. China's GDP in the first half of 2007 increased by 11.5% which is 0.50% higher than the same period last year. According to an article entitled "GDP predicted to grow by 10.8%" published on the website of China Daily on 8 July 2007, China's GDP is expected to increase by 10.80% in 2007. Given the strong forecast economic growth in the PRC in 2007 and the continuing upward trend of the LPG consumption for non-production purpose in the PRC as described above, the LPG consumption in the PRC is expected to increase in the future, which we believe will be to the benefit of the business of Menghua LPG.

3. Reasons for and benefits of the Supplemental Agreement

As stated in the paragraph headed “Reasons for and benefits of the Supplement Agreement“ under the section headed “Letter from the Board” in the Circular, the Group has been strategically expanding its retail network by acquiring existing LPG businesses operated by third parties, and it has substantial experience in the turn-around of loss making businesses. Menghua LPG, which had been a loss making company prior to the end of the year 2006, fits the expansion model of the Group. After the Acquisition, Menghua LPG achieved a turn-around, its unaudited combined management accounts show a profit of approximately RMB5,390,000 for the 5 months ended 31 May 2007. The original terms in the Subscription Agreement placed Menghua LPG under the management of Party B during the first year after the Acquisition, and the First Year Profit was used as a yardstick in determining Menghua LPG’s individual business performance. The payments to Party B under the Subscription Agreement are also linked to the First Year Profit. This arrangement reduces the investment risks of the Group and it has provided incentive to Party B. However, with the quick turn-around achieved by Menghua LPG, the need to observe Menghua LPG’s business performance over a full year has diminished. The Directors are of the view that a faster integration of the management and businesses of Menghua LPG with the rest of the Group under the Supplemental Agreement will be beneficial to the overall profitability of the Group.

As stated in the paragraph headed “Reasons for and benefits of the Supplemental Agreement” under the section headed “Letter from the Board” in the Circular, the Supplemental Agreement also fixes the acquisition cost for the equity interest in Menghua LPG and avoids the need for price adjustment and the uncertainties involved. Taking into account the performance of Menghua LPG for the first 5 months of 2007, we concur with the Directors’ view that the new payment scheme may provide a considerable discount from the aggregate amount that would have to be paid by NewOcean Transportation in the event the Guaranteed Profit is achieved and the acquisition of Menghua LPG is to be proceed under the original terms of the Subscription Agreement. As stated in the paragraph headed “The Supplemental Agreement“ under the section headed “Letter from the Board” in the Circular, the consideration of RMB21,250,000 for 39% of Menghua LPG represents a discount of approximately 28% to the aggregate amount of RMB29,500,000 that would have been payable by NewOcean Transportation under the same situation and for the same percentage interest (namely, RMB19,500,000 for 39% of Menghua LPG at 5 times price-earnings multiple plus RMB10,000,000 earned out payment). If NewOcean Transportation further exercises the Call Option (or Party B exercises the Put Option) in respect of the remaining 10% of Menghua LPG, the total consideration for 49% of Menghua LPG will be an aggregate sum of RMB25,750,000, representing a discount of approximately 25% to the aggregate amount of RMB34,500,000 that would have been payable by NewOcean Transportation under the same situation (namely, RMB24,500,000 for 49% of Menghua LPG under the original terms of the Subscription Agreement plus RMB10,000,000 earned out payment).

The principal activities of the Group are the sale and distribution of LPG and leasing of property, plant and equipment. As shown in the Company's annual report for the year ended 31 December 2006, the Group has discontinued its leasing of investment property, plant and equipment business and focus on the remaining business of sale of distribution of LPG, which accounted for approximately 95.92% of the total turnover of the continuing operations of the Group for the year ended 31 December 2006. As a LPG distributor and retailer located at the heart of Guangdong, Menghua LPG strategically links the Group's LPG operations in the Guangdong province, providing further opportunities for the Group to expand its LPG market share in the province. As the principal business of Menghua LPG is similar to that of the Group, we are of the view that the Supplemental Agreement and the transactions contemplated thereunder may provide potential synergies to the Group and fits the existing business strategy and the expansion model of the Group.

4. Principal terms of Supplement Agreement

Modifications to the Subscription Agreement

The Supplemental Agreement provided for the cancellation of relevant terms in the Subscription Agreement relating to: (a) Party B's obligations to guarantee the First Year Profit to be not less than RMB10,000,000, and arrangements for Party B to be in charge of the management of Menghua LPG during the first year; (b) arrangements for price and equity holding ratio adjustments between NewOcean Transportation and Party B after the end of the first year, the adjustment included the acquisition of the remaining 49% in Menghua LPG by NewOcean Transportation at a price linked to the First Year Profit; (c) Party B's entitlement to an earned out payment of RMB10,000,000 upon Menghua LPG achieving the Guaranteed Profit.

Under the Subscription Agreement as part of Party B's obligations in respect of the Guaranteed Profit: (a) Party B pledges the remaining 49% in Menghua LPG as security for his profit guarantee; and (b) NewOcean Transportation has the right to require Party B to repurchase the 51% interest in Menghua LPG if the Guaranteed Profit is not achieved. All such obligations on the part of Party B will lapse upon the cancellation of his obligations in respect of the profit guarantee.

Assets to be acquired

Pursuant to the Supplemental Agreement, NewOcean Transportation has conditionally agreed to acquire and Party B has conditionally agreed to dispose of 39% in the equity capital of Menghua LPG at a consideration of RMB21,250,000.

The Call Option and the Put Option

Pursuant to the Supplemental Agreement, Party B will grant to NewOcean Transportation the Call Option exercisable during a period of 2 years (the “Call Option Period”) after the completion of the Further Acquisition to acquire the 10% remaining equity interest at the price of RMB4,500,000. In addition, NewOcean Transportation will grant to Party B the Put Option exercisable during a period of one month after the expiry of the Call Option Period (on condition that the Call Option has not been exercised) to require NewOcean Transportation to purchase the aforesaid 10% remaining equity interest in Menghua LPG at the price of RMB4,500,000.

Basis of the consideration

The consideration of RMB21,250,000 for the 39% in Menghua LPG was arrived at through negotiation after taking into consideration the performance of Menghua LPG during the first 5 months immediately following the Acquisition. As stated in the paragraph headed “Information on Menghua LPG” under the section headed “Letter from the Board” in the Circular, Menghua LPG recorded a net profit before and after tax of approximately RMB5,390,000 for the 5 months ended 31 May 2007. Under the revised payment scheme as modified by the Supplemental Agreement, the total payment to be made by NewOcean Transportation for acquisition of the entire equity interest of Menghua LPG (presuming either the Call Option or the Put Option will be exercised) is the fixed sum of RMB41,250,000 which is calculated as the sum of (i) RMB21,250,000 for the acquisition of 39% of Menghua LPG under the Supplemental Agreement; (ii) RMB15,500,000 already paid under the Subscription Agreement; and (iii) RMB4,500,000 payable on exercise of the Call Option (or exercise of the Put Option by Party B). The maximum implied price-earnings multiple of the aggregate consideration of RMB41,250,000 based on the Guaranteed Profit is approximately 4.13 times.

In assessing the fairness and reasonableness of the aggregate consideration, we have reviewed and compared the price-earnings multiples of all companies listed on the main board of the Stock Exchange which are engaged in the sale of gas business in the PRC (the “Comparable Companies”) as at 29 June 2007, being the last trading day prior to and including the date of the Supplemental Agreement. As the principal business of Menghua LPG is the wholesale and retail of LPG, we consider that it is common market practice to use price-earnings multiple as a valuation benchmark. In the absence of any public information on private companies which carry the same business as Menghua LPG, we consider that the Comparable Companies running similar business as Menghua LPG

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provide a useful reference for the purpose of our analysis. The following table illustrates the price-earnings multiples of the Comparable Companies as at 29 June 2007:

| Company name (stock code) | Principal activities | Closing price on 29 June 2007, being the last trading day prior to and including the date of the Supplemental Agreement (HK\$) | Price-earnings multiple as at 29 June 2007, being the last trading day prior to and including the date of the Supplemental Agreement (Note 1) (times) |
|---|--|--|--|
| Hong Kong China Gas Company Limited (3) | Production, distribution and marketing of gas, water and related activities in Hong Kong and the PRC | 16.48 | 15.49 |
| China Gas Holdings Limited (384) | Gas connection and sales of piped gas, property investment, financial and securities investment | 3.35 | 54.47 |
| China Oil and Gas Group Limited (603) | Pipe connection services and sales of goods and natural gas | 1.37 | 44.92 |
| Enerchina Holdings Limited (622) | Supply of electricity, sale and distribution of LPG and natural gas and construction of gas pipelines | 0.55 | n/a (Note 2) |
| Chinese People Gas Holdings Limited (681) | Supply of natural gas, gas pipeline connection, glass product, property holding and investment | 0.94 | n/a (Note 2) |
| Panva Gas Holdings Limited (1083) | Sale and distribution of LPG and natural gas in the PRC | 3.96 | n/a (Note 2) |

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| Company name (stock code) | Principal activities | Closing price on 29 June 2007, being the last trading day prior to and including the date of the Supplemental Agreement (HK\$) | Price-earnings multiple as at 29 June 2007, being the last trading day prior to and including the date of the Supplemental Agreement (Note 1) (times) |
|--|---|--|--|
| XinAo Gas Holdings Limited (2688) | Gas connection and sale of piped gas, distribution of bottled LPG and sale of gas appliances | 9.82 | 23.59 |
| Zhengzhou Gas Company Limited (3928) | Sale of piped natural gas, provision of natural gas pipeline construction and the related repair and maintenance services | 1.80 | 19.68 |
| The Company (342) | Sale and distribution of LPG and sale of electronic products | 0.85 | 9.28 |
| Maximum | | | 54.47 |
| Minimum | | | 9.28 |
| Average | | | 27.91 |
| Menghua LPG | | | 4.13 (Note 3) |

Source: Stock Exchange website

Notes:

- The price-earnings multiples of the Comparable Companies are calculated as their respective closing prices on 29 June 2007 as quoted on the Stock Exchange divided by the earnings per share as shown in the latest published annual report of the Comparable Companies by then. Earnings per share expressed in RMB are translated using the exchange rate as at 29 June 2007 of RMB1=HK\$1.02767.

2. As the relevant Comparable Companies incurred losses, so no price-earnings multiples can be calculated.
3. The maximum implied price-earnings multiple of Menghua LPG is calculated as the aggregate consideration of RMB41,250,000 divided by a First Year Profit of not less than RMB10,000,000.

As shown in the above table, the price-earnings multiples of the Comparable Companies range from approximately 9.28 times to 54.47 times, with an average price-earnings multiples of approximately 27.91 times. The maximum implied price-earnings multiple represented by the aggregate consideration of approximately 4.13 times falls below the range of the price-earnings multiples of the Comparable Companies and is approximately 85.20% lower than the average price-earnings multiple of the Comparable Companies. Taking into account that Menghua LPG is a privately owned company, the shares of which cannot be traded as freely as those of the Comparable Companies on the Stock Exchange, we consider the lower implied price-earnings multiple of the aggregate consideration as compared with the average price-earnings multiples of the Comparable Companies is justifiable to the Company. Based on the above, we are of the view that the consideration of RMB21,250,000 for the acquisition of 39% of Menghua LPG under the Supplemental Agreement and the amount of RMB4,500,000 payable on exercise of the Call Option (or exercise of the Put Option by Party B) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Guaranteed yield on the remaining 10% equity interest held by Party B

Pursuant to the Supplemental Agreement, NewOcean Transportation will provide to Party B a guaranteed yield of RMB600,000 per year (the “Guaranteed Yield”) on the remaining 10% equity interest held by Party B after completion of the Further Acquisition. The Guaranteed Yield aims to provide to Party B a reasonable assurance for his interest as a minority equity holder. As noted from the Supplemental Agreement, the amount of the Guaranteed Yield was based on a fixed amount of the annual combined profit after tax of Menghua LPG of RMB6,000,000 which represents a 40% discount to the amount of the First Year Profit that would have been attributable to Party B’s 10% remaining interest in Menghua LPG. As advised by the Company, the Guaranteed Yield was arrived at after arm’s length negotiation between the Company and Party B and the discount reflects the reduction in management efforts required from Party B in the operations of Menghua LPG. Having considered that (i) Menghua LPG achieved a net profit before and after tax of approximately RMB5,390,000 for the 5 months ended 31 May 2007 and the continuous upward trend in the LPG consumption in the PRC as discussed under the paragraph headed “Overview of the LPG market in the PRC” above; (ii) the Guaranteed Yield was one of the terms of the Supplemental Agreement upon which the Supplemental Agreement was entered into; and (iii) the Guaranteed Yield represents a 40% discount to the amount of the First Year Profit that would have been attributable to Party B’s 10% remaining interest in Menghua LPG, we are of the view that the Guaranteed Yield on the remaining 10% equity interest held by Party B is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5. Financial effects of the transactions under the Supplemental Agreement

Net asset value

Based on the 2006 annual report of the Company, the Group had net assets of approximately HK\$445,950,000 as at 31 December 2006. Upon completion of the Acquisition, the net assets of Menghua LPG will be consolidated to the Group in the interim report of the Company for the six months ended 30 June 2007. As mentioned in the paragraph headed “Possible financial impact” under the section headed “Letter from the Board” in the Circular, goodwill, which needs to be tested annually for impairment, will arise on consolidation since the aggregate consideration exceeds the value of Menghua LPG’s net assets. We are of the view that there will not have any material effect on the net asset value of the Group upon completion of the transactions contemplated under the Supplemental Agreement.

Earnings

Based on the 2006 annual report of the Company, the Group recorded a net profit of approximately HK\$44,130,000 for the year ended 31 December 2006. Upon completion of the Acquisition, the results of Menghua LPG will be consolidated to the Group in the interim report of the Company for the six months ended 30 June 2007. As stated in the paragraph headed “Information on Menghua LPG” under the section headed “Letter from the Board” in the Circular, Menghua LPG recorded an unaudited net profit of approximately RMB5,390,000 for the 5 months ended 31 May 2007. Therefore, the earnings of the Group will be increased by acquiring a larger equity interest in Menghua LPG and consolidating the results of Menghua LPG upon completion of the transactions contemplated under the Supplemental Agreement.

Working capital

As stated in the paragraph headed “Possible financial impact” under the section headed “Letter from the Board” in the Circular, the aggregate consideration of RMB25,750,000 (assuming either the Call Option or the Put Option is exercised by the respective parties) payable by NewOcean Transportation under the Supplemental Agreement will be financed by internal resources of the Group. As noted from the 2006 annual report of the Company, the Group had bank and cash balances of approximately HK\$151,030,000. Therefore, we are of the view that the transactions under the Supplemental Agreement will not have any material adverse impact on the liquidity and cash flow position of the Group.

Based on the above, we are of the view that the overall financial effects are positive and hence the transactions contemplated under the Supplemental Agreement are in the interests of the Company and the Shareholders as a whole.

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RECOMMENDATION

Having considered the abovementioned principal factors and reasons, in particular:

- the continuous upward trend in the LPG consumption for non-production purpose in the PRC;
- the turn-around in net profit of Menghua LPG for the 5 months ended 31 May 2007;
- the transactions contemplated under the Supplemental Agreement provide potential synergies to the Group and fit the business strategy and expansion model of the Group;
- the consideration of RMB21,250,000 payable for the Further Acquisition represents a discount of approximately 28% to the aggregate amount of RMB29,500,000 that would have been payable by NewOcean Transportation under the same situation and for the same percentage interest in Menghua LPG;
- the total consideration of RMB25,750,000 payable for the 49% of Menghua LPG (if the Call Option or the Put Option is exercised) represents a discount of approximately 25% to the aggregate amount of RMB34,500,000 that would have been payable by NewOcean Transportation under the same situation and for the same percentage interest in Menghua LPG;
- the lower implied price-earnings multiple represented by the aggregate consideration for the acquisition of 100% interest in Menghua LPG of approximately 4.13 times as compared with the average price-earnings multiples of the Comparable Companies is justifiable to the Company; and
- the potential positive financial effects on the Group upon completion of the transactions contemplated under the Supplemental Agreement,

we are of the view that the Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the upcoming SGM to approve the Supplemental Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Baron Capital Limited
Sheron Yau
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTEREST IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at the Latest Practicable Date, the interests of the Directors and chief executives and their associates in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) 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 are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in Shares (Long Position)

| Name of Director | Capacity | Number of issued Shares held | Percentage of the issued share capital of the Company |
|------------------------|-----------------------|------------------------------|---|
| Shum Siu Hung | Beneficial owner | 20,811,779 | 4.32 |
| Wu Hong Cho | Other (<i>Note</i>) | 6,660,631 | 1.38 |
| Cen Ziniu | Other (<i>Note</i>) | 1,332,126 | 0.28 |
| Shum Chun, Lawrence | Other (<i>Note</i>) | 19,981,893 | 4.15 |

Note:

These interests reflect the interests in the 133,212,621 Shares held by Uniocean Investments Limited (“Uniocean”). Uniocean is owned as to 15% by Shum Chun, Lawrence (“SCL”), 15% by a brother of SCL, 64% by Tong Shiu Ming, mother of SCL, 5% by Wu Hong Cho and 1% by Cen Ziniu.

(b) Share options

| Name of Director | Capacity | Subscription price per Share (HK\$) | Number of underlying Shares | Outstanding at Latest Practicable Date |
|------------------------------|------------------|--|------------------------------------|---|
| Shum Siu Hung | Beneficial owner | 1.30 | 3,000,000 | 3,000,000 |
| | | 0.69 | 9,000,000 | 9,000,000 |
| Chiu Sing Chung, Raymond | Beneficial owner | 0.69 | 6,000,000 | 6,000,000 |
| Cen Ziniu | Beneficial owner | 1.30 | 3,000,000 | 3,000,000 |
| Cheung Kwan Hung, Anthony | Beneficial owner | 0.69 | 1,000,000 | 1,000,000 |

Save as disclosed above and other than the non-beneficial interests of Directors in the nominee shares in certain subsidiaries held by certain Directors subject to the terms of a written, valid and legally enforceable declaration of trust in favour of the Company, as at the Latest Practicable Date, no Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations which were 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 are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO and so far as is known to the Directors no person, other than Directors whose interests are disclosed above, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or , 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 meeting of any other member of the Group or had any option in respect of such capital:

(a) Interests in Shares (Long Position)

| Name of Shareholder | Capacity | Number of issued Shares held | Percentage of the issued share capital of the Company |
|---------------------|---------------------------------|------------------------------|---|
| Tong Shiu Ming | Held by corporation (Note 1) | 133,212,621 | 27.66 |
| | Family interest (Note 2) | 20,811,779 | 4.32 |
| Yam Tak Cheung | Held by corporation (Note 3) | 30,000,000 | 6.23 |

Notes:

- 133,212,621 Shares were held by Uniocean, being the same block of Shares referred to in the note to Paragraph 2 (a).
- 20,811,779 Shares were deemed to be interested by Tong Shiu Ming, spouse of Shum Siu Hung, as family interests.
- 30,000,000 Shares were held by Integrated Asset Management (Asia) Limited (“Integrated Asset”). Yam Tak Cheung owned 100% of Integrated Asset and was deemed to be the controlling shareholder of Integrated Asset.

(b) Share options

| Name of shareholder | Capacity | Subscription price per Share (HK\$) | Number of underlying Shares Practicable | Outstanding at Latest Date |
|---------------------|---------------------------|-------------------------------------|---|----------------------------|
| Tong Shiu Ming | Family interest (Note) | 1.30 | 3,000,000 | 3,000,000 |
| | Family interest (Note) | 0.69 | 9,000,000 | 9,000,000 |

Note:

These options to subscribe for 3,000,000 Shares and 9,000,000 Shares were held by Shum Siu Hung, the spouse of Tong Shiu Ming as referred to in Paragraph 2(b), and were deemed to be the family interest of Tong Shiu Ming.

4. LITIGATION AND MATERIAL ADVERSE CHANGE

- (a) As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against the Company or any other member of the Group.
- (b) Since 31 December 2006, being the date to which the latest published accounts of the Company have been made up, there is no material adverse change in the financial or trading position of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' OTHER INTERESTS

- (a) As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses, which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.
- (b) None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date, and which was significant in relation to the business of the Group taken as a whole.
- (c) None of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Company were made up.

7. EXPERT

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

| Name | Qualification |
|---------------|--|
| Baron Capital | A corporation licensed by the Securities and Futures Commission of Hong Kong to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

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

As at the Latest Practicable Date, Baron Capital:

- (a) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to the Company since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up; and
- (b) did not have any shareholding interest 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.

8. PROCEDURES FOR DEMANDING A POLL

In accordance with the Company's bye-laws, resolutions proposed at the SGM shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

9. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Wu Hong Cho, who had over 10 years experience practicing as a solicitor in Hong Kong.
- (b) The qualified accountant of the Company is Mr. Wu Yip Kai, CPA.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspect at the office of the Company at 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the SGM:

- (a) The Subscription Agreement; and
- (b) The Supplemental Agreement.



NewOcean Energy Holdings Limited

(新海能源集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 342)

Website: <http://www.newoceanhk.com>

ORDINARY RESOLUTION

NOTICE IS HEREBY GIVEN that an special general meeting of the shareholders of NewOcean Energy Holdings Limited (the “Company”) will be held at 20th Floor, Times Tower, 393 Jaffe Road, Wanchai, Hong Kong on Tuesday, 21 August, 2007 at 11:00 a.m.. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

“THAT:

- (a) the entering into of an agreement (the “Supplemental Agreement”) dated 1 July 2007 between Qingxin NewOcean Transportation Company Limited and Mr. Hu Shifa (a copy of which has been produced to the meeting marked “A” and initialled by the Chairman of the meeting for the purpose of identification) relating to transactions between Qingxin NewOcean Transportation Company Limited and Mr. Hu Shifa as described in a circular to shareholders of the Company dated 2 August 2007 (a copy of which has been produced to the meeting marked “B” and initialled by the Chairman of the meeting for the purpose of identification) be and is hereby approved, confirmed and ratified and the performance of all transactions contemplated under the Supplemental Agreement by the Company be and is hereby approved; and
- (b) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all acts and things and execute and deliver all documents whether under the common seal of the Company or otherwise as may be necessary, desirable or expedient to carry out or to give effect to any or all transactions contemplated under the Supplemental Agreement.”

By Order of the Board
NewOcean Energy Holdings Limited
Wu Hong Cho
Company Secretary

Hong Kong, 2 August 2007

* *for identification purposes only*

NOTICE OF SGM

Principal place of business:

20th Floor, Times Tower, 393 Jaffe Road,
Wanchai, Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.
2. A form of proxy in respect of the meeting is enclosed. If you do not intend to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be lodged at the share registrar of the Company, Secretaries Limited at 26th Floor., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the meeting or any adjournment thereof.
4. Where there are joint registered holders of a share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto. But if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of member of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. The printed version of this notice is contained in the circular to of the Company dated 2 August 2007 referred to in the Ordinary Resolution and despatched to shareholders of the Company.