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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)

DISCLOSEABLE TRANSACTION

ACQUISITION OF CONTROLLING INTEREST IN MENGHUA LPG

On 27 December 2006 NewOcean Transportation, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Party B and Party C. Pursuant to the Subscription Agreement, NewOcean Transportation conditionally agreed to acquire 51% of the entire equity interest in Menghua LPG by way of contribution to the registered capital of Menghua LPG. The total consideration payable by NewOcean Transportation for the Acquisition is RMB15,500,000 (approximately HK\$15,346,534) with an additional payment of RMB10,000,000 (approximately HK\$9,900,990) payable conditional on Menghua LPG achieving the Guaranteed Profit.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Party B and Party C are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

The consideration for and the terms of the Subscription Agreement were arrived at after arm's length negotiation between the parties and were agreed on normal commercial terms.

Under Rule 14.06(2) of the Listing Rules, the Acquisition constitutes a discloseable transaction for the Company. A circular containing further details of the acquisition will be dispatched to the shareholders as soon as practicable.

1. THE ACQUISITION AGREEMENT

1.1 Date

27 December 2006 and a supplemental agreement dated 29 December 2006.

1.2 Parties

- (a) NewOcean Transportation, a wholly-owned subsidiary of the Company incorporated in the PRC;
- (b) Party B, being Mr. Hu Shifa, a PRC national; and
- (c) Party C, being Madam Chen Weijiao, spouse of Mr. Hu Shifa and Mr. Jiang Hong, a relative of Mr. Hu Shifa.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Party B and Party C are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

1.3 The Transaction under the Subscription Agreement

Menghua LPG currently has a registered capital of RMB3,800,000 (approximately HK\$3,762,376) owned as to 75% by Party B and as to 25% by Party C. As condition precedent to the Acquisition, Party C will transfer their 25% total interests in Menghua LPG to Party B.

Pursuant to the Subscription Agreement, upon the completion of the aforesaid transfer, the registered capital of Menghua LPG will be increased by capital contribution of RMB3,955,100 (approximately HK\$3,915,940) from NewOcean Transportation, representing 51% of the registered capital of Menghua LPG as enlarged by the capital contribution. The remaining interest in the registered capital of Menghua LPG, then owned by Party B solely, will be diluted to 49% by NewOcean Transportation's capital contribution.

1.4 Consideration

Total cash consideration of RMB15,500,000 (approximately HK\$15,346,534), subject to adjustment, will be payable by NewOcean Transportation in relation to the Acquisition, comprising: (a) capital contribution of RMB3,955,100 to Menghua LPG; and (b) payment of RMB11,544,900 to Party B, which will be adjusted by an additional payment to be made by NewOcean Transportation and by provisions for equity holding ratio adjustment as set out in paragraphs 1.6 and 1.7 below.

The consideration was arrived at after arm's length negotiation between the parties and was agreed on normal commercial terms. In arriving at the consideration, a price/earning multiple of 5 times was used for the interest in Menghua LPG to be acquired by NewOcean Transportation. The price/earning multiple of 5 times was within the market range of similar enterprises in the LPG industry.

1.5 Guaranteed Profit

Party B guarantees the combined after tax profit of Menghua LPG for the first year after the Acquisition (the "First Year Profit") to be not less than RMB10,000,000 (approximately HK\$9,900,990) (the "Guaranteed Profit"). 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 following the Acquisition.

1.6 Additional payment to Party B on Menghua LPG meeting the Guaranteed Profit

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 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 attributable to this 49% interest.

Pursuant to the supplemental agreement dated 29 December 2006, for the purpose of calculation of the purchase price of Party B's 49% interest as aforesaid, the First Year Profit will be subjected to a maximum limit of RMB12,000,000. Accordingly in the event Party B exercises his right to require NewOcean Transportation to purchase his remaining interest in Menghua LPG, the purchase price will be limited to a maximum sum of RMB29,400,000 (approximately HK\$29,108,910). No other changes to the terms of the Subscription Agreement are made by the supplemental agreement.

1.7 Price and equity holding ratio adjustments when Guaranteed Profit not met

In the event 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 Profits is below RMB6,080,000, no additional payment will be payable;
- (b) to purchase the remaining 49% interest in Menghua 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 short fall 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.

In the event Menghua LPG is unable to meet the Guaranteed Profit and NewOcean Transportation exercises its right to require Party B to repurchase the 51% interest in Menghua LPG, or to vary the equity holding ratio as provided in the Subscription Agreement, the Company will proceed in accordance with the relevant requirements under the Listing Rules.

1.8 Conditions to the Subscription Agreement and completion

The Acquisition is conditional upon the following:

- (a) the representations, undertakings and warranties given by Party B and Party C in the Subscription Agreement being true and accurate in all respects; and
- (b) the transfer of Party C's 25% total interests in Menghua LPG to Party B being completed before 31 January 2007.

Prior to entering to the Subscription Agreement, the Company has conducted legal due diligence and investigation on the business and assets of Menghua LPG. Completion of the Acquisition will take place immediately after the fulfillment of condition (b). Apart from procedures to be carried out with local authorities of the State Administration for Industry and Commerce, completion of the Subscription Agreement will not be subjected to governmental approval in the PRC.

2. INFORMATION ON MENGHUA LPG

Menghua LPG is a business entity with limited liability established in the PRC on 8 February 2005. The principle business of Menghua LPG is the wholesale and retail of LPG. The main depot facilities of Menghua LPG are located in Jishan near the city boundaries of Guangzhou. During the period leading to signing of the Subscription Agreement, Party B completed a reorganization of the businesses of Menghua LPG, so that Guangzhou Xubiao LPG Company Limited ("Xubiao LPG"), an LPG retail

and distribution business formerly owned by Party B personally, becomes a wholly-owned subsidiary of Menghua LPG. The principle business of Xubiao LPG is the sale of LPG and LPG appliances and its main depot facilities are located in Baiyun District, Guangzhou.

Based on the unaudited financial statements of Menghua LPG and Xubiao LPG for the ten months ended 31 October 2006, and the unaudited financial statements of two entities the business and operations of which have been vested in Menghua LPG under sub-contracting arrangements (“Subcontracted Businesses”), the combined turnover and net profits of Menghua LPG, Xubiao LPG and the Subcontracted Businesses for the ten months ending on and their combined assets and liabilities as at the 31 October 2006 are as follows:

	10 months ended 31 October 2006 <i>RMB</i>
Turnover (<i>Note 1</i>)	92,967,400
Net Loss (<i>Note 1</i>)	1,024,027
	As at 31 October 2006 <i>RMB</i>
Total Assets (<i>Note 2 and Note 3</i>)	16,639,082
Total Liabilities (<i>Note 3</i>)	13,620,793
Net Assets	3,018,289

Note 1: The turnover and net loss contributed by the Subcontracted Businesses amounted respectively to RMB64,542,798 and RMB840,454.

Note 2: Not included in the value of the total assets of Menghua LPG shown above is a fleet of 39 LPG tankers and delivery vehicles held in the names of contractors and business associates that are licensed to operate LPG transportation business. Due to the short history of Menghua LPG since incorporation, certain of its equipment, fittings and fixtures originally provided by Parties B and C, being the original equity owners of Menghua, have not been brought into account. The total value of the tankers, vehicles, equipment and other assets as shown in schedules provided to NewOcean Transportation (the accuracy of which is warranted by Party B and Party C under the Subscription Agreement) is approximately RMB 20,689,325 (approximately HK\$20,484,480).

Note 3: Under the sub-contracting arrangements relating to the Subcontracted Business, the underlying assets still belongs to the two entities concerned and not vested in Menghua LPG. Accordingly, the assets and liabilities of these not entities are not shown in the chart.

Note 4: Menghua LPG has not been in operation for the full year in 2005 and the reorganisation of the various business components of Menghua LPG (including but not limited to the acquisition of Xubiao LPG as its subsidiary) has not taken place during the year. Therefore comparative figures for year 2005 are not included in the chart.

To meet its logistics needs and to serve retail customers, Menghua LPG has a fleet of 39 LPG tankers and delivery vehicles. As Menghua LPG does not hold a licence to operate LPG transportation business, these LPG tankers and delivery vehicles are held in the names of contractors and business associates, all being third parties independent of the Company and connected persons of the Company, that are licensed to operate LPG transportation business. It is presently intended that as far as practicable, these LPG tankers and delivery trucks will be registered in the name of NewOcean Transportation (or such other entities licensed to operate LPG transportation business as NewOcean Transportation may direct) for use in the business of Menghua LPG after the Acquisition.

In addition to the LPG businesses owned and operated by Menghua LPG and Xubiao LPG, Menghua LPG has entered into long term sub-contracting arrangements (the shortest one expiring in July 2012) with two LPG depot owners to operate the Subcontracted Businesses on payment of total sub-contracting fees of RMB240,000 per month. Pursuant to the sub-contracting arrangements, use and custody of the relevant LPG assets (including the name and style of the Subcontracted Business) are vested in Menghua LPG during the sub-contracting period. The right to conduct business using the LPG assets and the management of the Subcontracted Businesses are also vested in Menghua LPG. By making use of such right, Menghua LPG carried out LPG sale and distribution under the names of the Subcontracted Business and at their business locations. Since under the sub-contracting arrangements, the net proceeds of the LPG sale and distribution carried out under the names of the Subcontracted Business belong to Menghua LPG (together with the obligation to assume any net loss), the sub-contracting arrangements provided opportunity for Menghua LPG to generate additional business income.

The first of such subcontracting arrangements relates to a depot in the Panyu District operated by Party B personally as a subcontractor since January 2001 and converted to a subcontracting arrangement with Menghua LPG in 2006. The second of such subcontracting arrangements relates to a depot in the Guangzhou City operated by Party B personally as a subcontractor since April 2005 and converted to a subcontracting arrangement with Menghua LPG in 2006. The total turnover under the sub-contracting arrangements for the 10 months ended 31 October 2006 amounted to RMB64,542,797 and total net losses totalling RMB840,453.92 were recorded during the same period which, pursuant to the subcontracting arrangement, were assumed by Menghua LPG. The reasons for the losses were (a) the high world prices for petroleum products for most parts of 2006, squeezing gross profit margins; (b) the relatively restricted supply channels of Menghua LPG (due to the lack of cash resources and the size of depot facilities, Menghua LPG has been unable to make purchases in bulk); and (c) market resistance in the earlier part of 2006 when increase in retail sale prices could not catch up with the increase in supply prices. The Directors believe that since the retail market in the PRC is now adapting to the world-wide price increase for petroleum products, and better supply channels will be available to Menghua LPG after the Acquisition, Menghua LPG is expected to turn around into profit in due course.

Pursuant to the Subscription Agreement, after the Acquisition the board of directors of Menghua LPG will comprise 5 directors, 3 of whom will be nominated by NewOcean Transportation and 2 by Party B.

3. 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 Investments Limited for a joint venture construction and operation of a loading and offloading base for petroleum products in Zhuhai, PRC.

The Group has since the turn of the Century built up an integrated LPG business ranging from import, logistics and retail and distribution of LPG. Leveraging on the advantage of its 50,000 ton class sea terminal, its sales network and depots in 7 cities in Guangdong and Guangxi, the Group has become one of the fastest growing LPG importers in China.

4. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group has substantial experience and considerable success in strategically targeted business developments, and in business acquisitions and turn around in the LPG field. Despite the reported net loss of Menghua LPG and its short history since incorporation, the company has a combined turnover (including the sub-contracts) amounting to over RMB90,000,000. The Directors expect the business of Menghua LPG to turnaround into profit after the Acquisition by combining the resources of the Group and that of Menghua LPG. As a LPG distributor and retailer located at the heart of Guangdong, Menghua LPG strategically links the Group's operations in Shenzhen and Qingyuan acquired during the last few years, providing further opportunities for the Group to expand its LPG market share in the province. The LPG fleet and the depot facilities of Menghua will render support to the Groups logistics operations arm and to strengthen its market position in the LPG industry.

The Directors consider that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Group.

5. POSSIBLE FINANCIAL IMPACT

The combined value of the net assets of Menghua LPG as shown in its management accounts is RMB3,018,289. As the consideration for the Acquisition is expected to exceed the value of the net assets, there would be a likelihood of goodwill arising on completion of the Acquisition that will need to be amortized. However, taking into consideration (a) Menghua LPG beneficially owns a fleet of vehicles and other fittings and fixtures of considerable value which may be brought back into the consolidated accounts of the Group after the Acquisition; and (b) the Guaranteed Profit guaranteed by the 49% interest in Menghua LPG held by Party B following the Acquisition, the Directors consider that the financial impact of the acquisition on the Group's assets will be slight.

Upon completion of the Acquisition, Menghua LPG will become an indirect subsidiary of the Company and the financial results of the company will be consolidated into those of the Group. While Menghua LPG currently suffers a loss, the amount is small compared with its combined turnover and the company is expected to turn around. The Directors believe that in due course Menghua LPG will contribute positively to the Group in both its revenue and profits.

6. GENERAL

As the applicable percentage ratios for the acquisition are more than 5% but less than 25% under Rule 14.06(2) of the Listing Rules, the acquisition constitutes a discloseable transaction for the Company. A circular will be dispatched as soon as practicable to shareholders of the Company.

7. DEFINITIONS

“Acquisition”	the acquisition of a 51% interest in the equity capital of Menghua LPG pursuant to the Subscription Agreement
“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
“Group”	the Company and its subsidiaries
“Guaranteed Profit”	The combined after tax profit of Menghua LPG for the first year after Acquisition guaranteed by Party B, being the sum RMB10,000,000
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“LPG”	liquefied petroleum gas
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board
Shum Siu Hung
Chairman

Hong Kong, 4 January 2007

For the purpose of this announcement, the conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.01 = HK\$1.00. Such conversion should not be construed as a representation that the amount in question has been, could have been or could be converted at such particular rate or at all.

As at the date of this announcement, the Board comprises of Mr. Shum Siu Hung, Mr. Chiu Sing Chung, Raymond, Mr. Lawrence Shum Chun and Mr. Cen Ziniu, being the executive Directors, Mr. Wu Hong Cho being the non-executive director, Mr. Anthony Cheung Kwan Hung, Mr. Joseph Ma Man Hoi, Mr. Benedict Chan Yuk Wai and Dr. Xu Mingshe being the independent non-executive Directors.

** For identification purposes only*

*Please also refer to the published version of this announcement in
The Standard and Hong Kong Economic Times.*