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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**

On 1 July 2007 NewOcean Transportation and Party B entered into the Supplemental Agreement, 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.

As announced by the Company on 4 January 2007, NewOcean Transportation entered into the Subscription Agreement pursuant to which NewOcean Transportation agreed to acquire from Party B 51% of Menghua LPG. The Subscription Agreement provided for arrangements for price and equity holding ratio adjustments, including NewOcean Transportation's right to acquire the remaining 49% of Menghua LPG from Party B, all of which are linked to the First Year Profit of Menghua LPG. The Subscription Agreement further provided for Party B's obligation to guarantee the First Year Profit of Menghua LPG to be not less than RMB10,000,000, and an earned out payment to Party B on Menghua LPG meeting the Guaranteed Profit.

Under the Supplemental Agreement the aforesaid arrangements for price and equity holding ratio adjustments which are linked to the First Year Profit and Party B's rights and obligations in respect of the First Year Profit are cancelled and are replaced by: (a) NewOcean Transportation acquiring 39% of Menghua LPG at a fixed price of RMB21,250,000; (b) the Call Option; and (c) the Put Option.

The transactions under the Supplemental Agreement constitute a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Also, Party B is a connected person to the Company under the Listing Rules by virtue of the 49% equity interest in Menghua LPG he currently holds. Accordingly the transactions under the Supplemental Agreement will be subject to approval of the shareholders by poll at a special general meeting to be held for this purpose. A circular containing, among other things, details of the transactions under the Supplemental Agreement, a letter of advice from an independent financial adviser and the recommendation from the independent board committee will be dispatched to the shareholders as soon as practicable.

\* *for identification purposes only*

Reference is made to the announcement (the “**Acquisition Announcement**”) of the Company dated 4 January 2007 in relation to the execution of the Subscription Agreement by NewOcean Transportation, a wholly-owned subsidiary of the Company incorporated in the PRC. Unless the context otherwise requires, terms used in this announcement shall have the same meaning as defined in the Acquisition Announcement.

## **1. THE SUPPLEMENTAL AGREEMENT**

### **1.1 Date**

1 July 2007.

### **1.2 Parties**

- (a) NewOcean Transportation, a wholly-own subsidiary of the Company incorporated in the PRC; and
- (b) Party B, being Mr Hu Shifa, a PRC national.

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

### **1.3 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 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) Acquisition of 39% of Menghua LPG at a fixed price**

*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.

Under the Subscription Agreement, assuming Menghua LPG achieves a First Year Profit of RMB10,000,000 (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 in respect of the remaining 10% in Menghua LPG***

*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 Supplemental 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.

*The Call Option*

Party B will grant to NewOcean Transportation an option (the “**Call Option**”) to acquire the aforesaid 10% remaining equity interest at the price of RMB4,500,000 exercisable during a period of 2 years (the “**Call Option Period**”) after the completion of the acquisition of 39% equity interest in Menghua LPG.

*Consideration for the Call Option*

The entry into the Supplemental Agreement by NewOcean Transportation.

**(c) *The Put Option in respect of the remaining 10% in Menghua LPG***

*The Put Option*

NewOcean Transportation will grant to Party B an option (the “**Put Option**”) to require NewOcean Transportation to purchase the aforesaid 10% remaining equity interest in Menghua LPG at the price of RMB4,500,000 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.

### *Consideration for the Put Option*

The entry into the Supplemental Agreement by Party B.

#### **1.4 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.

## **2. INFORMATION ON MENGHUA LPG**

As announced in the Acquisition Announcement, 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 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 outskirt 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). 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 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:

	<b>5 months ended 31 May 2007</b>	<b>10 months ended 31 October 2006</b>	<b>12 months ended 31 December 2006</b>
	<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)
		<b>As at 31 May 2007</b>	<b>As at 31 October 2006</b>
		<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.

### **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.

### **4. 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. 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 RMB5,391,000 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 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.

## 5. POSSIBLE FINANCIAL IMPACT

The combined value of the net assets of Menghua LPG as shown in its management accounts is RMB28,724,956. 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.

## 6. GENERAL

The transactions under the Supplemental Agreement constitute a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules as well as a connected transaction under Chapter 14A of the Listing Rules. The Supplemental Agreement will be subject to approval of the shareholders by poll at a special general meeting to be held for this purpose. A circular containing, among other things, details of the transactions under the Supplemental Agreement, a letter of advice from an independent financial adviser and the recommendation from the independent board committee will be dispatched to the shareholders as soon as practicable.

By Order of the Board  
**Shum Siu Hung**  
Chairman

Hong Kong, 11 July 2007

*As at the date of this announcement, the Board comprises of Mr. Shum Siu Hung, Mr. Raymond Chiu Sing Chung, 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. Benedict Chan Yuk Wai and Dr. Xu Mingshe being the independent non-executive Directors.*