China CBM Group Company Limited
中國煤層氣集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8270)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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This announcement, for which the directors (the "Directors") of China CBM Group Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement herein or this announcement misleading; and that all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication.

HIGHLIGHTS

- For the year ended 31 December 2019, the Group's unaudited revenue amounted to approximately RMB168,229,000, representing a slightly increase of 0.08% over that of the year ended 31 December 2018.

- For the year ended 31 December 2019, the Group's unaudited loss for the year amounted to approximately RMB21,612,000, whereas there was a loss of approximately RMB121,933,000 for the year ended 31 December 2018.

- For the year ended 31 December 2019, the Group's unaudited loss per share was RMB1.70 cents (2018: RMB8.01 cents).

- The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2019.

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of the Company and its subsidiaries (collectively, the "Group") has not been completed. The unaudited consolidated results of the Company have not yet been agreed with the auditor of the Company and have therefore been reviewed by the Company's audit committee (the "Audit Committee") without disagreement. The Board will use its reasonable endeavours to publish its preliminary announcement of the audited results for the year ended 31 December 2019 (the "Audited Final Results"), which will be agreed with the auditor of the Company as soon as possible and in any event after transportation and travel restrictions imposed due to the COVID-19 coronavirus are lifted in Hong Kong and Mainland China.

In the meantime, the board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures for the corresponding period in 2018 as follows:

Consolidated Statement of Profit or Loss
For the year ended 31 December 2019

	Notes	**2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Audited)
Revenue	3	**168,229**	168,097
Cost of sales		**(121,462)**	(132,190)
Gross profit		**46,767**	35,907
Other income and gains or losses	4	**10,652**	(13,096)
Selling and distribution costs		**(7,262)**	(7,106)
Administrative and other expenses		**(59,378)**	(57,557)
Impairment loss on property, plant and equipment		**–**	(39,090)
Impairment loss under expected credit loss model, net of reversal		**(2,230)**	(31,617)
Finance costs		**(9,880)**	(9,296)
Loss before taxation	6	**(21,331)**	(121,855)
Income tax expense	7	**(281)**	(78)
Loss for the year		**(21,612)**	(121,933)
Attributable to:			
Equity shareholders of the Company		**(22,404)**	(105,686)
Non-controlling interests		**792**	(16,247)
		(21,612)	(121,933)
		RMB	*RMB*
Loss per share	8		
– Basic and diluted		**1.70 cents**	8.01 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Loss for the year	**(21,612)**	(121,933)
Other comprehensive income (loss) for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(7,595)**	11,533
Total comprehensive loss for the year	**(29,207)**	(110,400)
Total comprehensive loss attributable to:		
Equity shareholders of the Company	**(29,999)**	(94,153)
Non-controlling interests	**792**	(16,247)
	(29,207)	(110,400)

Consolidated Statement of Financial Position
At 31 December 2019

	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		**480,910**	551,948
Right-of-use assets		**33,324**	–
Prepaid land lease payments		**–**	33,323
Deposits and prepayments		**821**	821
		515,055	586,092
Current assets			
Prepaid land lease payments		**–**	871
Inventories		**7,675**	7,361
Trade and other receivables	9	**57,074**	54,640
Tax recoverable		**2,000**	2,000
Bank balances and cash		**18,265**	17,256
		85,014	82,128
Current liabilities			
Trade and other payables	10	**276,969**	333,781
Bank and other borrowings		**55,507**	54,200
Lease liabilities		**4,947**	–
Provision		**19,078**	16,646
Contract liabilities		**14,724**	11,521
Tax payable		**4,187**	3,413
		375,412	419,561
Net current liabilities		**(290,398)**	(337,433)
Total assets less current liabilities		**224,657**	248,659

	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Non-current liabilities			
Bank and other borrowings		**–**	5,000
Lease liabilities		**8,722**	–
Convertible bonds		**15,604**	12,416
Deferred tax liabilities		**6,313**	8,018
		30,639	25,434
Net assets		**194,018**	223,225
Capital and reserves			
Share capital		**10,910**	10,910
Reserves		**209,426**	239,425
Equity attributable to equity shareholders of the Company		**220,336**	250,335
Non-controlling interests		**(26,318)**	(27,110)
Total equity		**194,018**	223,225

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity shareholders of the Company										
	Share capital	**Share premium**	**General reserve**	**Translation reserve**	**Contributed surplus**	**Share option reserve**	**Convertible bonds reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2018	10,910	131,082	8,273	(22,952)	584,838	30,849	8,652	(407,164)	344,488	(10,863)	333,625
Loss for the year	–	–	–	–	–	–	–	(105,686)	(105,686)	(16,247)	(121,933)
Other comprehensive income for the year	–	–	–	11,533	–	–	–	–	11,533	–	11,533
Total comprehensive loss for the year	–	–	–	11,533	–	–	–	(105,686)	(94,153)	(16,247)	(110,400)
Balance at 31 December 2018	10,910	131,082	8,273	(11,419)	584,838	30,849	8,652	(512,850)	250,335	(27,110)	223,225
Balance at 1 January 2019	**10,910**	**131,082**	**8,273**	**(11,419)**	**584,838**	**30,849**	**8,652**	**(512,850)**	**250,335**	**(27,110)**	**223,225**
Loss for the year (Unaudited)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,404)**	**(22,404)**	**792**	**(21,612)**
Other comprehensive income for the year (Unaudited)	**–**	**–**	**–**	**(7,595)**	**–**	**–**	**–**	**–**	**(7,595)**	**–**	**(7,595)**
Total comprehensive loss for the year (Unaudited)	**–**	**–**	**–**	**(7,595)**	**–**	**–**	**–**	**(22,404)**	**(29,999)**	**792**	**(29,207)**
Balance at 31 December 2019 (Unaudited)	**10,910**	**131,082**	**8,273**	**(19,014)**	**584,838**	**30,849**	**8,652**	**(535,254)**	**(220,336)**	**(26,318)**	**194,018**

Notes:

1. **BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENT**

   (a) **Statement of compliance**

   The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

   (b) **Going concern**

   The Group incurred a net loss of approximately RMB21,612,000 during the year ended 31 December 2019 and as at 31 December 2019, the Group had net current liabilities of approximately RMB290,398,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

   Nevertheless, the directors of the Company had adopted the going concern basis in the preparation of the consolidated financial statements of the Group based on their going concern assessment and cash flow forecast.

2. **CHANGES IN ACCOUNTING POLICIES**

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**319**
Less: Recognition exemption – short-term leases	**(319)**
	–

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	At 1 January 2019 *RMB'000*
Reclassified from prepaid lease payments *(Note)*	**34,194**
By class:	
Leasehold lands	**34,194**

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately RMB871,000 and RMB33,323,000 respectively were reclassified to right-of-use assets.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. REVENUE

(a) Disaggregation of revenue from contracts with customers

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Type of goods or service		
Sales of liquefied coalbed gas	**–**	4,578
Provision of liquefied coalbed gas logistics services	**4,673**	5,223
Sales of piped natural gas	**144,028**	144,979
Provision of gas supply connection services	**19,528**	13,317
	168,229	168,097
Timing of revenue recognition		
At point in time	**148,701**	154,780
Over time	**19,528**	13,317
Total	**168,229**	168,097

(b) Performance obligations for contracts with customers

(i) Sales of liquefied coalbed gas and piped natural gas

Revenue from Sales of liquefied coalbed gas and piped natural gas is recognised when customers obtain control of the liquefied coalbed gas and piped natural gas when the gas is delivered to customers' specific location. Invoices are usually payable within 30 days.

(ii) Provision of liquefied coalbed gas logistics services

The performance obligation is satisfied at a point in time when the liquefied coalbed gas are delivered to customers' specific location.

(iii) Provision of gas supply connection services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 5 working days from the date of billing. The Group is entitled to the final payment until the service quality is satisfied by the customers.

4. OTHER INCOME AND GAINS OR LOSSES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Other income		
Interest income from bank deposits	**25**	29
Net foreign exchange gain	**104**	31
Rental income	**331**	381
Service income	**8,461**	4,326
Value-added tax refund	**10,759**	13,085
Sundry income	**472**	392
	20,152	18,244
Other gains or losses		
Net (loss)/gain on disposal of property, plant and equipment	**(472)**	477
Written-off of property, plant and equipment	**(9,050)**	(23,817)
Written-off of other receivables	**–**	(8,000)
Waiver of other payables	**22**	–
	10,652	(13,096)

5. SEGMENT REPORTING

The Group's operating segments are determined based on information reported to the chief operating decision maker (the "CODM"), being the Company's board of directors, for the purpose of resources allocation and performance assessment. The CODM reviews the Group's internal reporting, assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of exploitation, liquefaction production and sale of natural gas in the PRC. Therefore, the CODM considers there is only one operating segment under the requirements of HKFRS 8 Operating Segments. In this regard, no segment information is presented.

Additional disclosure in relation to segment information is not presented as the CODM assess the performance of the sole operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

The total segment result is equivalent to total comprehensive expense for the year as shown in the consolidated statement of profit or loss and other comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

(a) Geographical information

For the two years ended 31 December 2019 and 2018, all of the Group's revenue and all non-current assets were derived from customers in the PRC (country of domicile) and were located in the PRC accordingly, no further analysis of the Group's geographical information is disclosed.

(b) Information about major customers

Revenue from customers of corresponding years contributing over 10% of total revenue of the Group is as follows:

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
Customer A	**25,849**	20,533
Customer B	**N/A[1]**	41,861
	25,849	62,394

[1] The corresponding revenue does not contribute over 10% of the total sale of the Group in the respective year.

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
(a) Staff costs (including directors' and chief executive's emoluments)		
Salaries and other benefits	**18,033**	19,543
Retirement benefits schemes contributions	**2,665**	3,678
Total staff costs	**20,698**	23,221

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
(b) Other items		
Cost of inventories	**77,592**	70,087
Auditors' remuneration	**1,473**	1,616
Depreciation of property, plant and equipment	**69,101**	70,844
Depreciation of right-of-use assets	**871**	–
Amortisation of prepaid land lease payments	**–**	926
Expense relating to short-term lease and other leases with lease terms end within 12 months/operating lease rentals on premises	**559**	596
Research and development costs	**990**	1,929

7. INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax – PRC Enterprise Income Tax ("EIT")		
Provision for the year	**1,999**	1,773
Withholding tax on dividends	**(1,223)**	(620)
Deferred tax		
Origination and reversal of temporary differences	**(495)**	(1,075)
Income tax expense	**281**	78

The Company was incorporated in the Cayman Islands and continued in Bermuda as an exempted company under the laws of Bermuda and, accordingly, is exempted from payment of the Bermuda Income Tax.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Hong Kong Profits Tax is calculated under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

8. LOSS PER SHARE

The basic and diluted unaudited loss per share is RMB1.70 cents per share (2018: RMB8.01 cents per share). The calculation of the basic unaudited loss per share for the year ended 31 December 2019 is based on the unaudited loss attributable to equity shareholders of the Company of approximately RMB22,404,000 (2018: RMB105,686,000) and the weighted average number of shares of approximately 1,319,484,000 (2018: 1,319,484,000) in issue during the year ended 31 December 2019.

The calculation for diluted unaudited loss per share for the year ended 31 December 2019 is based on the unaudited loss attributable to equity shareholders of the Company of approximately RMB22,404,000 (2018: RMB105,686,000) and the denominator used are the same as for the basic loss per share. Diluted unaudited loss per share attributable to equity shareholders of the Company for the years ended 31 December 2019 and 2018 is the same as the basic loss per share as the effect of potential ordinary shares from the exercise and conversion of share options and convertible bonds are anti-dilutive.

9. TRADE AND OTHER RECEIVABLES

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
Trade receivables		
– contract with customers	**4,675**	7,414
Less: Allowance for credit losses	**(3,820)**	(3,848)
	855	3,566
Bills receivables	**–**	900
Other receivables	**17,979**	16,254
Amount due from a related company	**6,000**	5,605
Advances to suppliers	**3,637**	1,855
Prepayment relating to construction expenses	**23,235**	19,248
Other prepayments	**3,496**	3,919
Value-added tax recoverable	**1,872**	3,293
	57,074	54,640

As of the end of the reporting period, the ageing analysis of the trade receivables, based on invoice date and net of allowance for credit losses, is as follows:

	2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Audited)
Within 1 month	**692**	1,153
More than 1 month but less than 3 months	**–**	34
More than 3 months but less than 6 months	**–**	–
More than 6 months but less than 12 months	**–**	1,196
More than 12 months	**163**	1,183
	855	3,566

The Group generally allows credit period of 30 to 180 days to its customers. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon the customers' requests.

10. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**98,956**	133,197
Amounts due to directors	**2,284**	8,954
Amounts due to former directors	**1,266**	–
Amounts due to non-controlling shareholders of subsidiaries	**6,093**	10,797
Accrued expenses and other payables	**41,373**	47,268
Payables for acquisition of property, plant and equipment	**124,717**	131,327
Value-added and other taxes payables	**2,280**	2,238
	276,969	333,781

As of the end of the reporting period, the ageing analysis of the trade payables, based on invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**1,519**	9,013
More than 1 month but less than 3 months	**10,424**	7,419
More than 3 months but less than 6 months	**–**	–
More than 6 months but less than 12 months	**–**	1,056
More than 12 months	**87,013**	115,709
	98,956	133,197

11. DIVIDEND

No dividend has been proposed or declared by the directors for the year ended 31 December 2019 (2018: Nil).

12. EVENTS AFTER THE REPORTING PERIOD

Since early 2020, the epidemic of Coronavirus Disease 2019 (the "COVID-19 outbreak") has spread across China and other countries and it has affected the business and economic activities of the Group to some extent.

The Group's performance in 2020 could possibly be affected. The overall financial effect cannot be reliably estimated as of the date of these consolidated financial statements. The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the business, the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a consolidated turnover of approximately RMB168,229,000 for the year ended 31 December 2019, representing a slightly increase of approximately 0.08% compared with year ended 31 December 2018. It is mainly due to (1) the stable output volume of the coalbed methane wells in our coalbed methane blocks located in Yangcheng; (2) however, the decrease of 100% in sales of liquefied coalbed gas set off the increase of the sales of gas supply connection services.

The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2019 of approximately RMB22,404,000 compared with that of approximately RMB105,686,000 for the year ended 31 December 2018. The decrease in loss attributable to equity shareholders of the Company are mainly due to (i) the written off of property, plant and equipment and other receivable decreased by RMB22,767,000 compared with 2018; (ii) impairment loss on property, plant and equipment decrease by RMB39,090,000 compared with 2018; (iii) a significant decrease in impairment loss under expected credit loss model, net of RMB29,387,000 compared with 2018.

BUSINESS REVIEW AND DEVELOPMENT PROSPECTS

Resources and reserves

Yangcheng Huiyang New Energy Development Company Limited (hereinafter referred to as "Huiyang New Energy") has interest in certain CBM properties located at Shanxi Province, the PRC. The Yangcheng area is approximately 96 km^2 in the Shanxi Province, the PRC. Development within the Yangcheng gas block is focused on the #3 and #15 coal seams. These CBM properties are located at various coal mine areas owned by Shanxi Yangcheng Yangtai Group Industrial Company Limited. Huiyang New Energy is a joint venture company and 60% of its equity interests is held by one of the wholly-owned subsidiaries of the Group.

The movements in the reserves of certain CBM properties as of 31 December 2019 are set out below:

	Reserve evaluation of the CBM properties as at 31 December 2019 BCF	Reserve evaluation of the CBM properties as at 31 March 2012 BCF
Total original gas in place on all blocks	1,936	2,724
Net 1P (Proved) reserves	1,089	35
Net 2P (Proved + Probable) reserves	1,547	277
Net 3P (Proved + Probable + Possible) reserves	1,936	2,050

The change in the 1P, 2P and 3P is based on the professional advice by the Engineer of our Group.

The reserve evaluation of the CBM properties as at 31 March 2012 is the results of evaluation conducted by an independent, US-licensed natural gas reserve engineer, Netherlands, Sewell & Associates, Inc. ("NSAI") engaged by the Company in 2011 to evaluate the CBM properties reserves.

Due to continued development of the gas field blocks by the Company, the number and scope of the gas production wells are relatively increased as compared with that of 2012, enabling the Company to collect more data about the CBM properties to evaluate the CBM properties more accurately. Accordingly, the Company engaged an independent professional valuer in the PRC in July 2014 to evaluate certain CBM properties of "Huiyang New Energy" in terms of net 3P (Proved + Probable + Possible) reserves, net 2P (Proved + Probable) reserves and net 1P (Proved) reserves based on substantially the same definitions and guidelines as that of NSAI in 2012. According to the results of the evaluation, the total original gas in place on all blocks was generally unchanged as compared with that of NSAI in 2012. Based on the current costs for developing wells, the technical department of the Group estimates the capital expenditure for each well to be approximately RMB1.4 million, mainly comprising of road maintenance fees of approximately RMB0.09 million, drilling expenses of approximately RMB0.86 million, well testing fees of approximately RMB0.04 million and costs of equipment and materials of approximately RMB0.41 million.

Gas volumes are expressed in billion of cubic feet (BCF) at standard temperature and pressure bases. The reserves shown in the above table are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially recoverable; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance.

Natural Gas Exploration and Extraction

As at 31 December 2019, the Group has completed the ground work and drilling of 244 CBM wells, among which 199 wells were in production, representing no change in number of wells compared with the number of wells at the end of 2018. The existing gas output wells produce approximately 850 cubic meters of gas on average per day.

Marketing and Sales

During 2019, the marketing and sales systems did not change significantly and the personnel structure and sales strategies basically remained the same. Affected by overall environment, the sales price during traditional peak periods did not represent a substantial increase as the previous year, by contrast, the sales price took on a descending trend, which, to some extent, has affected the sales performance.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the Group had net assets of approximately RMB194,018,000, including cash and bank balances of approximately RMB18,265,000. To minimize financial risks, the Group implements stringent financial and risk management strategies and avoids the use of highly-geared financing arrangements. The Group's gearing ratio, calculated by the Group's total external borrowings divided by its shareholders' fund, was approximately 38.08% as at 31 December 2019 (2018: 28.61%).

The Group is opportunistic in obtaining financing to further improve the cash position given that the natural gas drilling program is capital intensive. If the Group has adequate financing in the future (whether it is from internal cash flow due to increased gas sales, or from fund raising), the Group will accelerate the drilling program. Apart from the intended investment in upstream CBM exploration and extraction, the Group does not have any other plan for acquisition or investment, disposal or scale-down of any current business.

The Employees

As at 31 December, 2019, the employees of the Group totaled 348, among which 11 were R&D staff and 197 were project and customer service staff; 119 were administration staff and 21 were marketing and sales staff. During the year, the total cost of staff (including the remuneration of the Board Directors) recognised in profit or loss account was approximately RMB20,698,000 (2018: approximately RMB23,221,000). The remuneration and salary packages and dividend policy of the Group were determined based on the individual performance of staff. The Group will continue to offer professional further studies and training to staff.

Risk in Foreign Exchange

The group entities collect most of the revenue and incur most of expenditures in their respective functional currencies. The Directors consider that the Group's exposure to foreign currency exchange is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity.

Significant Investment, Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the year ended 31 December 2019, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

OUTLOOK

The upstream business of the Company is improving steadily and the well construction and gas output are both increasing constantly. During 2017, the Company made technological upgrade to some old wells to improve production capacity and output, laying a solid foundation for the Company's long-term performance. However, the shortage in supply of raw gas kept handicapping the Company. Daily gas output of the upstream business was insufficient to allow the 500,000 cubic meters daily production capacity of liquefaction plants to be fully unleased. In view of this, the Group commenced the R&D on synthetic natural gas production in 2017, and invited Institute of Process Engineering under Chinese Academy of Sciences to provide guidance on project testing. As at the date of this announcement, the experiment on synthetic natural gas production was successfully completed. The Group has commenced the process of commercialized design in the second half of 2019 and small-scale production is expected to start in the second half of 2020. In addition, the Group plans to realize the daily output to 350,000 cubic meters at the end of 2020 and realize the daily output to 850,000 cubic meters by the mid of 2021. The Group also plans to resume its LNG project second half of 2020, as the number of upstream wells and gas output are both steadily increasing, the group successfully developed synthetic natural gas production and LNG price stabilized. The Group's raw gas supply will be further consolidated and the advantage of vertical integration business will emerge. The production capacity of liquefaction plants will be fully unleashed. In 2019, thanks to the stable supply from self-produced well gas, the Company will be gradually less affected by external factors and the uncontrollable risks involved in the operation of the Company will become less.

As there are growing concerns over the environmental issues, it is foreseen that the highly polluted energy will be eliminated from the market more rapidly and the use of replaceable clean energy will be more popular, resulting in a keener market demand for natural gas. The demand growth of natural gas market will continue to retain its strong momentum. Management of the Company will spare no effort in overcoming difficulties and be devoted to making contribution to the Company's profit margin and long-term development.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in shares, underlying shares and debentures of the Company

Name	Capacity	Nature of interest	Number of shares/ underlying shares	Approximate % of shareholdings
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 *(Note 1)*	1.38%
	Beneficial owner	Personal	470,588,254 *(Note 2)*	35.66%
Mr. Fu Shou Gang	Beneficial owner	Personal	324,750 *(Note 3)*	0.02%

Notes:

1. Such shares are owned by Jumbo Lane Investments Limited.

   Mr. Wang Zhong Sheng owns 100% interest in the issued share capital of Jumbo Lane Investments Limited and he is taken to be interested in the shares owned by Jumbo Lane Investments Limited pursuant to Part XV of the SFO (Chapter 571 of the Laws of Hong Kong).

2. Out of the 470,588,254 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 324,750 shares under the new share option scheme adopted by the Company on 18 May 2011; (ii) a beneficial owner of 376,121,483 issued shares of the Company; and (iii) a holder of convertible bonds convertible to 94,142,021 conversion shares.

3. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 324,750 shares under the new share option scheme adopted by the Company on 18 May 2011. Mr. Fu Shou Gang has resigned as an executive director of the Company with effect from 19 June 2019.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. The Group had not issued any debentures during the Year.

SUBSTANTIAL SHAREHOLDERS AND PERSONS WITH DISCLOSEABLE INTEREST AND SHORT POSITION IN SHARES AND UNDERLYING SHARES UNDER THE SFO

As at 31 December 2019, the following persons (other than the Directors or chief executive of the Company as disclosed above) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in shares of the Company

Name	**Number of shares**	**Nature of Interest**	**Percentage of shareholding**
Ms. Zhao Xin *(Note)*	488,706,754	Interest of spouse	37.04%

Note: Ms. Zhao Xin (the spouse of Mr. Wang Zhong Sheng) is deemed to be interested in her spouse's interest in the Company pursuant to the SFO.

Save as disclosed above, as at 31 December 2019, no other person (other than the Directors or chief executive of the Company) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under to section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children or chief executive or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 18 May 2011, the Company's share option scheme adopted on 28 July 2003 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted which will remain in force for a period of 10 years from adoption of the New Share Option Scheme and will expire on 17 May 2021. On 30 May 2011, the Board approved to grant options in respect of 258,300,000 ordinary shares to the Company's Directors, employees and consultants under the New Share Option Scheme.

There were no share options that had been granted remained outstanding under the Old Share Option Scheme prior to its termination.

For details of the New Share Option Scheme, please refer to the circular of the Company dated 20 April 2011.

Information in relation to share options disclosed in accordance with the GEM Listing Rules was as follows:

Name and category of participants	As at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2019	Date of grant of share options	Exercise period of share options	Exercise price of per share as at the date of grant of share options	Adjusted exercise price per share option
Executive Directors									
Mr. Wang Zhong Sheng	324,750	–	–	–	324,750	30/5/2011	30/5/2011–29/5/2021	0.495	3.81
Mr. Fu Shou Gang*	324,750	–	–	–	324,750	30/5/2011	30/5/2011–29/5/2021	0.495	3.81
	649,500	–	–	–	649,500				
Employees	5,486,976	–	–	–	5,486,976	30/5/2011	30/5/2011–29/5/2021	0.495	3.81
Consultants	25,982,598	–	–	–	25,982,598	30/5/2011	30/5/2011–29/5/2021	0.495	3.81
	32,119,074	–	–	–	32,119,074				

* Mr. Fu resigned on 19 June 2019 as executive director.

Notes:

(i) The terms and conditions of the grants that existed during the year are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted:			
30 May 2011	215,220,000	Vest immediately	10 years
30 May 2011	43,080,000	Half on each of the first and second anniversaries of grant date	10 years

(ii) The number and weighted average exercise prices of options are as follows:

	Weighted average exercise price *HK$*	Number of options
Outstanding as at 1 January 2019	3.81	32,119,074
Granted during the year	–	–
Outstanding as at 31 December 2019	3.81	32,119,074
Exercisable as at 31 December 2019	3.81	32,119,074

The options outstanding as at 31 December 2019 had an exercise price of HK$3.81 and a weighted average remaining contractual life of 1.4 years.

The subscription price per share under the New Share Option Scheme is solely determined by the Board, and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer to grant option; and (iii) the nominal value of a share on the date of offer to grant option, provided that in the event of fractional prices, the subscription price per share shall be rounded upwards to the nearest whole cent.

CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS

As at the date of this announcement, the Company had outstanding options to subscribe for 32,119,074 shares under the share option scheme adopted on 18 May 2011 and outstanding convertible bonds convertible to 94,142,021 conversion shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company nor any of its subsidiaries.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business as of the Group.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to travel and transportation restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. Shareholders and potential investors are advised to read carefully the announcement in relation to the audited annual results of the Group for the year ended 31 December 2019 to be published.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group has not been audited and has not been agreed with the Auditor, and may be subject to changes, reclassification and/or adjustments resulting from the audit process. The actual audited annual results of the Group for the year ended 31 December 2019 may be different from the unaudited financial information disclosed in this announcement.

Shareholders and potential investors of the Company are also cautioned not to unduly rely on the unaudited financial information disclosed herein, and are advised to exercise caution when dealing in the securities of the Company.

DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

Since early 2020, the epidemic of Coronavirus Disease 2019 (the "COVID-19 outbreak") has spread across China and other countries and it has affected the business and economic activities of the Group to some extent.

The Group's performance in 2020 could possibly be affected. The overall financial effect cannot be reliably estimated as of the date of these consolidated financial statements. The Group will closely monitor the development of the COVID-19 outbreak and continue to evaluate its impact on the business, the financial position and operating results of the Group.

CORPORATE GOVERNANCE

During the year ended 31 December 2019 and up to the date of this announcement, save as disclosed below, the Group has complied with all the applicable provisions in the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules (the "Code").

Under the code provision A.2.1 of the Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Prior to the retirement of Mr. Feng San Li on 26 November 2012, Mr. Feng San Li was holding the title of CEO. Mr. Wang Zhong Sheng is the chairman of the Board. After Mr. Feng's retirement, Mr. Wang Zhong Sheng continues to act as the chairman and the duties of the chief executive have been undertaken by the other executive Director. The Board meets regularly to consider major matters affecting the business and operations of the Group. The Board considers that this structure will balance the power and authority between the Board and management and believes that this structure enables the Group to make and implement decision promptly and efficiently.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Currently, the independent non-executive Directors have no fixed term of office but are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

AMENDMENT TO THE TERMS OF REFERENCE OF NOMINATION COMMITTEE

The terms of reference of the nomination committee of the Company was amended on 14 August 2013 to include the review of the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy as one of its duty.

REQUIRED STANDARD OF DEALINGS REGARDING SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than those as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by Directors as set out in the Company's code of conduct for the year 2019.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of its independent non-executive Directors are independent.

For the purpose of this announcement and solely for the propose of illustration, all amount in RMB are translated into HK$ at the exchange rate of RMB0.89485: HK$1.

By order of the Board
China CBM Group Company Limited
Wang Zhong Sheng
Chairman

China, 27 March 2020

As at the date hereof, the executive Directors are Mr. Wang Zhong Sheng and Mr. Chang Jian, the non-executive Directors are Mr. Wang Chen, Mr. Liang Feng and Mr. Wu Kun, and the independent non-executive Directors are Mr. Lau Chun Pong, Mr. Wang Zhi He and Mr. Xu Yuan Jian.