**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

**If you have sold or transferred** all your shares in China Leason CBM & Shale Gas Group Company Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



# China Leason CBM & Shale Gas Group Company Limited
# 中國聯盛煤層氣頁岩氣產業集團有限公司

(formerly known as China Leason Investment Group Co., Limited 中國聯盛投資集團有限公司)

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

**(Stock code: 8270)**

## MAJOR TRANSACTION
## IN RELATION TO
## FINANCE LEASE ARRANGEMENT

Terms used in this cover page have the same meanings as defined in this circular.

A notice of EGM to be held at Conference Room, Building 27-2, Yard No. 1, Disheng North Street, Beijing Economic – Technological Development Area, Beijing, PRC on 27 May 2013 (Monday) at 12:00 noon is set out on pages 31 to 32 of this circular. A form of proxy for use thereat is also enclosed. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis 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 holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the meeting or any adjournment thereof should you so wish.

22 April 2013

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

# CONTENTS

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

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| "Assets I" | properties situated at Lizhuang Village, Jiafeng Town, Qinshui County, Pucheng City, Shanxi Province, the PRC (山西省晉城市沁水縣嘉峰鎮李莊村) and the Equipments |
| "Assets II" | properties situated at Chengdongsan Road, Beiliu City, Guangxi Province, the PRC (廣西省北流市城東三路) |
| "associate(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Board" | the board of Directors |
| "CIMC" | 中集融資租賃有限公司 (CIMC Capital Ltd.) (formerly known as 中集車輛融資租賃有限公司 (CIMC Vehicle Financial Leasing Company Limited)), a company established in the PRC with limited liability |
| "Company" | China Leason CBM & Shale Gas Group Company Limited (formerly known as China Leason Investment Group Co., Limited), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM |
| "connected person(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be held and convened on 27 May 2013 (Monday) for the Shareholders to consider and, if thought fit, to approve the Finance Lease Agreement and the transactions contemplated thereunder |
| "Equipments" | certain liquefied natural gas equipments (LNG液化裝置設備) |
| "Finance Lease Agreement" | the conditional finance lease agreement entered into between Qinshui Energy and CIMC on 21 May 2012 in relation to the sale and lease of the Equipments |
| "Finance Lease Arrangement" | the finance lease arrangement contemplated, among other things, under the Finance Lease Agreement |
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "Group" | the Company and its subsidiaries |

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| "Guangxi Beiliu" | 廣西北流燃氣有限公司 (Guangxi Beiliu Gas Company Limited), a company established in the PRC with limited liability and indirectly owned as to 97.5% by the Company |
| "Guarantees" | certain guarantees dated 21 May 2012 entered into by members of the Group in favour of CIMC to secure due payment by Qinshui Energy to CIMC in accordance with the Finance Lease Agreement |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hebei Shuntai" | 河北順泰能源有限公司 (Hebei Shuntai Energy Resource Company Limited), a company established in the PRC with limited liability and a directly wholly-owned subsidiary of the Company |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Independent Third Party(ies)" | any person or company and their respective ultimate beneficial owner(s) (if applicable) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons |
| "Latest Practicable Date" | 16 April 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular |
| "LNG" | liquefied natural gas |
| "Luoyang Shunhe" | 洛陽順和能源有限公司 (Luoyang Shunhe Energy Company Limited), a company established in the PRC with limited liability and indirectly wholly-owned subsidiary of the Company |
| "Mr. Wang" | Mr. Wang Zhong Sheng, an executive Director and substantial shareholder of the Company |
| "Nominal Purchase Price" | the nominal purchase price of RMB100 by which Qinshui Energy has an option to purchase the Equipments from CIMC upon expiry of the lease period under the Finance Lease Agreement |
| "PBC" | 中國人民銀行 (People's Bank of China) |
| "PRC" or "China" | the People's Republic of China, which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |

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|---|---|
| "Qinshui Energy" | 山西沁水順泰能源發展有限公司 (Shanxi Qinshui Shuntai Energy Development Company Limited), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Shanxi Logistics" | 山西萬志物流有限公司 (Shanxi Wanzhi Logistics Limited), a company established in the PRC on 13 August 2008 with limited liability and indirectly owned as to 83% by the Company, and 17% by 沁水縣盛融投資有限責任公司 (Shanxi Qinshui Prefecture Chengrong Investment Limited), a company established in the PRC with limited liability |
| "Shanxi Yangcheng" | 山西陽城順泰能源發展有限公司 (Shanxi Yangcheng Shuntai Energy Development Company Limited), a company established in the PRC with limited liability and a directly wholly-owned subsidiary of the Company |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Share Pledge Agreement" | the conditional share pledge agreement entered into between the Company and CIMC on 21 May 2012 |
| "Shareholder(s)" | holder(s) of the Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "substantial shareholder(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Yangcheng Huiyang" | 陽城縣惠陽新能源發展有限公司 (Yangcheng Huiyang New Energy Development Company Limited), a joint venture company established in the PRC with limited liability and owned as to 60% indirectly by the Group, 20% by 山西陽城陽泰集團實業有限公司 (Shanxi Yangcheng Yangtai Group Industrial Company Limited), a company established in the PRC with limited liability, and 20% by 鄭州貞成能源技術服務有限公司 (Zhengzhou Zhencheng Energy Technology Service Company Limited), a company established in the PRC with limited liability, respectively |
| "%" | per cent |

*If there is any inconsistency between the Chinese names of PRC entities, departments, facilities or titles mentioned in this circular and their English translations, the Chinese version shall prevail.*

All amounts in RMB have been translated in HK$ at a rate of HK$1.00 = RMB0.81 in this circular for illustration purpose only. No representation has been made by the Company that any amount have been, could have been or could be converted at the above rate or at any other rates or at all.

# China Leason CBM & Shale Gas Group Company Limited
# 中國聯盛煤層氣頁岩氣產業集團有限公司

(formerly known as China Leason Investment Group Co., Limited 中國聯盛投資集團有限公司)
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 8270)**

*Executive Directors:*
Mr. Wang Zhong Sheng *(Chairman)*
Mr. Shi Liang
Mr. Zhang Qing Lin
Mr. Fu Shou Gang
Mr. Kwok Shun Tim

*Independent non-executive:*
Mr. Luo Wei Kun
Ms. Pang Yuk Fong
Mr. Wang Zhi He

*Registered office:*
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business in Hong Kong:*
Room 3705, 37th Floor
148 Electric Road
North Point
Hong Kong

22 April 2013

*To Shareholders*

Dear Sirs or Madams,

## MAJOR TRANSACTION
## IN RELATION TO
## FINANCE LEASE ARRANGEMENT

## INTRODUCTION

Reference is made to the announcement of the Company dated 21 May 2012 in relation to, inter alia, the Finance Lease Arrangement.

The purpose of this circular is to provide you with further details in relation to, among other things, (i) the Finance Lease Arrangement; (ii) financial information on the Group; (iii) a notice of the EGM; and (iv) certain information as required by the GEM Listing Rules to consider and, if thought fit, pass the resolution to approve the Finance Lease Agreement.

## THE FINANCE LEASE AGREEMENT

### Date

21 May 2012

### Parties

Lessee: Qinshui Energy, a direct wholly-owned subsidiary of the Company

Lessor: CIMC. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, CIMC, a company principally engaged in the business of financial leasing, and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the Finance Lease Agreement, (i) Qinshui Energy conditionally agreed to sell and CIMC conditionally agreed to purchase the Equipments for a total consideration of RMB95,000,000 (approximately HK$117,283,950.62); and (ii) Qinshui Energy conditionally agreed to lease from CIMC, and CIMC conditionally agreed to lease to Qinshui Energy, the Equipments for a total lease consideration of RMB114,570,000 (approximately HK$141,444,444.44) for a term of 36 months by monthly installments inclusive of interest, with a lump sum handling fee in the sum of RMB950,000 (approximately HK$1,172,839.51). However, the lease consideration may be adjusted according to the floating lending interest rate to be promulgated by PBC from time to time as detailed in the paragraph headed "Consideration for the lease of Equipments" below.

### Subject matter

The Equipments to be sold by Qinshui Energy to CIMC and thereafter to be leased by Qinshui Energy from CIMC pursuant to the Finance Lease Arrangement include gas pressurization system, low-temperature liquefaction system, gas compression system, LNG storage and automated monitoring system, transformers and gas delivery pipelines which were acquired by the Group in 2009 at the total acquisition cost of RMB155,354,068 (approximately HK$191,795,145.68). As at the Latest Practicable Date, the Equipments were operating in normal conditions and have a remaining useful life of 7 to 12 years. These equipments and facilities represent the entire production facilities for the purpose of liquefying natural gas in the LNG factory of the Group located in Qinshui, Shanxi Province, PRC.

### Lease period

The lease consideration would be payable to CIMC by Qinshui Energy by monthly installments for a term of 36 months, commencing on the date that the relevant lease payment be paid by Qinshui Energy tentatively upon the execution of the certificate for the transfer of ownership of the Equipments.

**Consideration for the sale of the Equipments**

The consideration payable by CIMC to Qinshui Energy for the purchase of the Equipments is RMB95,000,000 (approximately HK$117,283,950.62) which shall be settled within five business days upon receipt of the valid certificate for the transfer of the ownership of the Equipments by CIMC and the completion of the registration of the pledges in the following manner:

1. RMB47,500,000 (approximately HK$58,641,975.31) (the "**First Payment**") at the request of Qinshui Energy and its fellow subsidiaries. The First Payment shall be used by the fellow subsidiaries of Qinshui Energy to acquire equipments with installation for drilling and pipeline transmission projects from third party equipment suppliers, and shall be paid directly by CIMC to such third party equipment suppliers; and

2. RMB47,500,000 (approximately HK$58,641,975.31) (the "**Second Payment**") at the request of Qinshui Energy. The Second Payment shall be used by Qinshui Energy to acquire equipments with installation for the second phrase of the liquefied natural gas expansion project, and shall be paid directly by CIMC to such third party equipment suppliers.

To the best of the Directors' knowledge, information and belief, the First Payment will be used by Shanxi Yangcheng and Yangcheng Huiyang, the fellow subsidiaries of Qinshui Energy to acquire equipments including power generators, pumping system and gas pressurization system and the relevant acquisition price will be paid directly by CIMC to the third party equipment suppliers including 天津市金玉達機電設備安裝有限公司 (Tianjin City Ginyuda Electrical and Mechanical Equipments Installation Co., Ltd.), 滄州天鑫石油管道裝備有限公司 (Cangzhou Tianxin Petroleum & Pipe Equipments Co., Ltd.), 天津市華油鋼管有限公司 (Tianjin Huayou Steel Pipe Co., Ltd.), 天津凱德實業有限公司 (Tianjin Kaide Industrial Co., Ltd.), 華宇廣泰建工集團有限公司 (Huayu Guangtai Construction Group Co., Ltd.) and 晉城市天俊恒工貿有限公司 (Jincheng City Tianjunheng Industry and Trade Co., Ltd.). As at the Latest Practicable Date, the pipeline transmission project had been completed and was ready for commercial operation, whereas the drilling project at the CBM blocks of the Group in Yangcheng is progressing largely in line with our original plan. The Board expects to accelerate the drilling project and around 250 wells are planned for drilling in 2013.

To the best of the Directors' knowledge, information and belief, the Second Payment will be used by Qinshui Energy to acquire equipments including gas pressurization system, low-temperature liquefaction system and gas compression system and the relevant acquisition price will be paid directly by CIMC to the third party equipment suppliers. As at the Latest Practicable Date, the second phase of the liquefied natural gas expansion project of Qinshui Energy was still at the planning stage. The Board expects that the field construction work will begin in the fourth quarter of 2013 the latest in order to match the growth of our CBM output in the coming years.

The sales consideration of the Equipments in the sum of RMB95,000,000 represents approximately 28% discount on the net book value of the Equipments in the sum of RMB132,390,281 as at 31 December 2011. According to the Finance Lease Arrangement, the Company has an option to purchase the Equipments from CIMC upon expiry of the lease period at the Nominal Purchase Price of RMB100. Taking into consideration of the long term economic benefit, the Directors consider that the Company intends to purchase the Equipments from CIMC upon expiry of the lease period. The net book value of the leased Equipments as at 21 May 2015 (the expiry date of Financial Lease Agreement) is approximately RMB95,000,000 and which is close to the sales consideration of RMB95,000,000. Therefore, the Directors consider that the discount rate of 28% and the sales consideration of the Equipments in the sum of RMB95,000,000 be fair and reasonable.

**Consideration for the lease of the Equipments**

The total lease consideration of the Equipments payable by Qinshui Energy to CIMC is RMB114,570,000 (approximately HK$141,444,444.44) for a term of 36 months by monthly installments inclusive of interest, with a lump sum handling fee in the sum of RMB950,000 (approximately HK$1,172,839.51) which shall be directly deducted from the First Payment. The total lease consideration of RMB114,570,000 was based on the sales consideration payable by CIMC to Qinshui Energy for the purchase of the Equipments of RMB95,000,000 as principal with interest calculated at the PBC floating leading rate of around 12.6% per annum at the time of signing of the Finance Lease Agreement on 21 May 2012. The monthly payment will be approximately RMB3,182,500 based on the prevailing PBC floating lending interest rate. The lease consideration may be adjusted according to the floating lending interest rate to be promulgated by PBC from time to time, that is, the said annual lease interest rate shall be increased/decreased by the same percentage point of change of the floating lending interest rate to be promulgated by PBC from time to time. Interest will be adjusted 10 days after the day of the change of the PBC floating lending interest rate takes effect.

Qinshui Energy shall pay an amount of RMB14,250,000 (approximately HK$17,592,592.59) as warranty money to CIMC which shall be directly deducted from the First Payment payable by CIMC to Qinshui Energy. If Qinshui Energy commits any breach causing penalty or damages, CIMC will deduct such penalty and damages from the warranty money. Qinshui Energy has the option to set off any outstanding lease consideration against the warranty money and any balance thereof will be refunded to Qinshui Energy without interest upon expiry of the lease period.

The consideration under the Finance Lease Agreement (including the consideration for the sale of the Equipments and the consideration for the lease of the Equipments) was determined after arm's length negotiations between Qinshui Energy and CIMC with reference to the prevailing market price and rate for finance leases of comparable Equipments. It is expected that the funding of the lease consideration will be financed by the Company's internal financial resources.

The Directors (including the independent non-executive Directors) consider that the terms of the Finance Lease Agreement are fair and reasonable and on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

**Condition precedent**

The Finance Lease Agreement shall take effect subject to and conditional upon the Company obtaining all necessary or appropriate approval and consent as may be required by it as a company listed on GEM. No stipulation was made in relation to the latest time for fulfilment of such condition precedent under the Finance Lease Agreement.

### Ownership

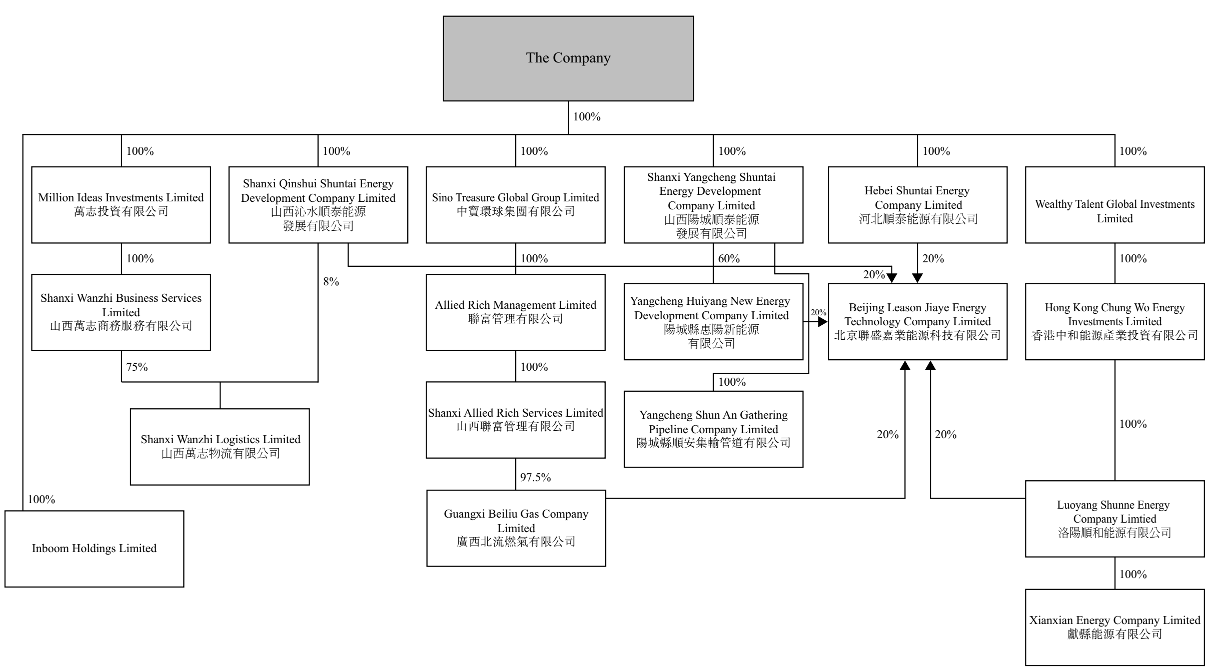
Subject to Qinshui Energy having duly and satisfactorily performed all its obligations under, and upon the expiry of, the Finance Lease Agreement, Qinshui Energy has an option to purchase the Equipments from CIMC for the Nominal Purchase Price of RMB100. The Company intends to exercise the option to purchase the Equipments upon expiry of the Finance Lease Agreement.

### Pledges and Guarantees

It was agreed between the parties to the Finance Lease Agreement that Qinshui Energy shall pledge Assets I, and Guangxi Beiliu shall pledge Assets II, to CIMC, respectively to secure due payment by Qinshui Energy under the Finance Lease Agreement. Assets I includes buildings and land use rights of properties situated at Lizhuang Village, Jiafeng Town, Qinshui County, Pucheng City, Shanxi Province, the PRC (山西省晉城市沁水縣嘉峰鎮李莊村) and the Equipments, which have a total carrying value of RMB187,265,669 as of December 2012. Assets II includes buildings and land use rights of properties situated at Chengdongsan Road, Beiliu City, Guangxi Province, the PRC (廣西省北流市城東三路), which have a total carrying value of RMB10,280,838 as of December 2012.

On 21 May 2012, each of the Company, Luoyang Shunhe, Shanxi Logistics, Hebei Shuntai, Yangcheng Huiyang and Shanxi Yangcheng entered into a Guarantee in favour of CIMC to secure due payment by Qinshui Energy to CIMC in accordance with the Finance Lease Agreement. Each of the Guarantees will take effect upon the Company obtaining all necessary or appropriate approval and consent as may be required by it as a company listed on GEM.

The following chart sets out the corporate structure of the Group as at the Latest Practicable Date:



According to the Finance Lease Agreement, CIMC shall have the right to require additional guarantees in the circumstances where (i) the credibility of Qinshui Energy or its guarantors has dropped; or (ii) the value of the pledged assets has dropped; or (iii) other circumstances arise rendering it reasonable for CIMC to require additional protection. If CIMC notices any unreasonable delay in the monthly installment payment or damage of the Equipments, there will be an indication of drop in credibility of Qinshui Energy or its guarantors and the value of the pledged assets. CIMC has the right to access into the Company by its appointed staff or agent periodically without giving notice to the Company to inspect the usage and existence of the Equipments and make assessment to determine whether the amount of additional guarantee is needed. The additional guarantee amount would be mutually agreed between parties under the Finance Lease Agreement.

**THE SHARE PLEDGE AGREEMENT**

In connection with the Finance Lease Arrangement, the Company entered into the Share Pledge Agreement on 21 May 2012, pursuant to which the Company conditionally agreed to pledge its 93.33% shareholding in Qinshui Energy in favour of CIMC to secure due payment by Qinshui Energy in accordance with the Finance Lease Agreement, and the two finance lease agreements entered into between Qinshui Energy and CIMC dated 2 December 2010, the three finance lease agreements entered into between Shanxi Logistics and CIMC dated 2 December 2010 (details of which were set out in the circular of the Company dated 24 January 2011). Among the five finance lease agreements entered into between the Group and CIMC on 2 December 2010 as stated in the announcement of the Company dated 7 December 2010, the finance lease agreements in relation to LNG trailers, towing vehicles and LNG refill stations are currently still in force with a total outstanding installment amount of approximately RMB6,638,000. The Share Pledge Agreement shall take effect upon the Company obtaining all necessary or appropriate approval and consent as may be required by it as a company listed on GEM; and the share pledge agreement in relation to the finance lease agreements dated 2 December 2010 would lapse accordingly.

Even though various pledge and guarantees to CIMC have been given, CIMC still wishes to have further security. Similar to the finance lease arrangements entered into between the Company and CIMC on 2 December 2010, the arrangement of share pledge was requoted by CIMC for the Finance Lease Arrangement. The Directors are of the opinion that it is unlikely to find another finance lease lessor for terms comparable with those offered by CIMC in the market. The Directors therefore consider that the entering into of the Share Pledge Agreement is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

## REASONS FOR AND BENEFITS OF THE FINANCE LEASE ARRANGEMENT

The Company's LNG plant in Qinshui will be subject to lower gas supply risks and also enjoy a higher utilization rate once the drilling program of the Group ramps up and pipeline transmission project in Yangcheng Huiyang completes. Moreover, in view of the optimistic outlook of natural gas demand in China, Qinshui Energy will eventually benefit from a stronger volume growth after the completion of second phrase of the LNG expansion project, promoting earnings contribution to the Group.

The Directors (including the independent non-executive Directors) are of the opinion that the Finance Lease Arrangement was entered into on normal commercial terms after arm's length negotiation and the terms of the Finance Lease Arrangement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, the Directors are of the opinion that it is one of the fastest and efficient ways to source funding for future business development of the Company. It is also easier for the Company to control and monitor its cash flow under the budgeted monthly installment under the Finance Lease Arrangement. Besides, the interest rate to be paid by the Company under the Finance Lease Arrangement is considered to be much lower than that of those secured loans which ranges from 7.67% to 16.8%. The Directors are of the view that even though the Company will have net proceeds of approximately HK$96,400,000 pursuant to the placing of new shares as stated in the announcement of the Company dated 15 March 2013, such proceeds will be used for well drilling and pipeline construction work and the Company will still have funding needs for the Finance Lease Arrangement since the Company planned to complete the drilling of over 500 CBM wells by the end of 2013.

None of the Directors has any material interest in the Finance Lease Arrangement and is required to abstain from voting on the board resolutions approving the Finance Lease Arrangement.

## FINANCIAL EFFECTS OF THE FINANCE LEASE ARRANGEMENT

Upon the closing of the Finance Lease Arrangement, it is expected that (i) the total assets of the Group will increase by approximately RMB94,050,000 which reflect the sale consideration of the Equipments after deducting a lump sum handling fee of RMB950,000; and (ii) the liabilities of the Group will increase by approximately RMB95,000,000 which reflects the amount of consideration to be paid by the Group through obligations under finance leases. While there is no immediate material impact on the earnings of the Group caused by the Finance Lease Arrangement, the Directors consider that the sales consideration would likely to improve the liquidity of the Group and accelerate the drilling program of the Group's coalbed methane blocks in Yangcheng. It is expected that the following closing of the Finance Lease Arrangement, the Group's finance charges on obligations under finance leases will increase.

The audited total net book value of the Equipments as at 31 December 2011 was RMB132,390,281.

Save as described above, the Finance Lease Arrangement is not expected to have any material impact on the earnings and assets and liabilities of the Group.

## TRADING AND FINANCIAL PROSPECTS OF THE GROUP

In light of a recent publication regarding the 12th Five-Year Plan for the period from 2011 to 2015 of the PRC government, natural gas users in China will increase by 100 million to a total of 250 million. In the national gas market, the Group has observed inadequate gas supply in general that has rendered midstream gas processing companies in the market in an adverse operating environment causing low utilisation and loss.

Unlike most of the above midstream gas processing companies whose business models only focus on certain areas of the gas production or supply chain, the Group has its own gas production in upstream operation which enhance the Group's self-sufficiency in gas supply to the mid-stream LNG plants and downstream gas sales and distribution, and therefore reducing the gas supply risk in the long run. With the successful transformation into a fully integrated natural gas enterprise, the Company expects business will turn profitable and show phenomenal growth in the near future.

Furthermore, the Group, with its own gas feedstock, is less affected by gas price fluctuation caused by international natural gas market. Nevertheless, the increasing gas price in the international market would make our gas products and supply more competitive and increase our profit margin given our lower operation cost of our full participation in the natural gas value chain. The Group believes that its revenue and profit will increase in the long run. More importantly, the vertical integration strategy would enable the Group to sustain a long term development and become a strong market leader.

Since the end of the third quarter of 2012, the operating performance of subsidiaries of the Group has improved steadily, mainly due to more stable natural gas feed at our LNG plant and robust market demand. On the other hand, the pipeline transmission project had been completed in December 2012 and is ready for commercial operation, whereas the drilling project at our CBM blocks in Yangcheng is progressing largely in line with our original plan. The number of wells ready for gas output would increase and the daily production per well would rise as the wells become more mature. The Group expects the daily gas production to exceed 350,000 cubic meter per day by end of 2013, which would progressively raise the utilization rate of the LNG plant and downstream facilities. As the demand for gas in China remains strong and the Group's supply constraint unleashed, the Group expects the gas sales in 2013 to grow significantly and the profitability to improve materially.

Please also refer to the paragraph headed "Contingent liabilities" in Appendix I to this circular in relation to an arbitration proceeding in which the Company was involved as at the Latest Practicable Date.

On the development front, the Group plans to accelerate its drilling project and it is expected that 552 CBM wells will be completed by the end of 2013. Currently the Group has completed the drilling of 220 CBM wells and the production capacity of each well is approximately 600 cubic meter per day. The Directors are optimistic about the Group in obtaining financing to further improve the cash position when necessary given that the CBM drilling program is capital intensive.

## INFORMATION OF THE GROUP

The Group is principally engaged in the sale of natural gas in the PRC. As at the Latest Practicable Date, the Company had 4,402,505,023 Shares in issue, outstanding convertible bonds with principal amount of HK$275,400,000 convertible into 1,059,230,769 Shares and options to subscribe for 249,760,000 Shares granted under the share option scheme of the Company.

## INFORMATION OF CIMC

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the ultimate beneficial owner of CIMC is China International Marine Containers (Group) Co., Ltd., a listed company in Hong Kong and is an Independent Third Party. To the best of the Directors' knowledge, information and belief, CIMC is principally engaged in the business of financial leasing and has obtained all necessary licenses to conduct the business.

On 2 December 2010, CIMC entered into a finance lease arrangement with certain subsidiaries of the Group. Details of the finance lease arrangement are set out in the announcement of the Company dated 7 December 2010 and the circular of the Company dated 24 January 2011.

As at the Latest Practicable Date, the Company had received pre-payment of RMB47,500,000 from CIMC as deposit, for which the Group has provided certain pledges as security for the said pre-payment. The relevant pledges will be released by CIMC upon return of the said pre-payment.

## GEM LISTING RULES IMPLICATIONS

As the applicable percentage ratios of the Finance Lease Agreement and the transactions contemplated thereunder exceed 25% but less than 100%, the Finance Lease Agreement and the transactions contemplated thereunder constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Therefore, the Finance Lease Agreement and the transactions contemplated thereunder are subject to, among other things, the requirements of announcement and the approval of the Shareholders by way of poll at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has any interest in the Finance Lease Arrangement and no Shareholder is required to, among other things, abstain from voting at the EGM.

## EXTRAORDINARY GENERAL MEETING

An EGM will be convened and held to consider and, if thought fit, to approve, among other things, the Finance Lease Arrangement by way of poll.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the resolution to be approved at the EGM.

The notice of the EGM to be held at Conference Room, Building 27-2, Yard No. 1, Disheng North Street, Beijing Economic – Technological Development Area, Beijing, PRC on 27 May 2013 (Monday) at 12:00 noon, is set out on pages 31 to 32 of this circular.

A form of proxy for use thereat is also enclosed. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis 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 holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the meeting or any adjournment thereof should you so wish.

## RECOMMENDATION

The Directors, including independent non-executive Directors, believe that the terms of the Finance Lease Arrangement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including independent non-executive Directors, recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

## ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in Appendices I and II to this circular and the notice of the EGM.

By Order of the Board
**China Leason CBM & Shale Gas Group Company Limited**
(formerly known as China Leason Investment Group Co., Limited)
**WANG ZHONG SHENG**
*Executive Director*

## 1. THREE-YEAR FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2012, 2011 and 2010 are disclosed in the annual reports of the Company for the years ended 31 December 2012, 2011 and 2010 respectively, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.ilinkfin.net/china_leason/).

## 2. INDEBTEDNESS STATEMENT

### Borrowings

As at the close of business on 31 March 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding indebtedness of approximately RMB93 million, comprising secured bank borrowings of approximately RMB36 million, unsecured other loans of approximately RMB50 million and obligation under finance lease of approximately RMB6 million.

### Pledge of assets

As at 31 March 2013, the Group had pledged property, plant and equipment of approximately RMB30 million to secure the bank loans granted to the Group and had pledged property, plant and equipment of approximately RMB11 million and its entire shareholding in Qinshui Energy in favour of CIMC to secure due payment of the total lease considerations in accordance with previous finance lease arrangement entered into by the Group on 2 December 2010. Details of the finance lease arrangement are set out in the announcement of the Company dated 7 December 2010 and the circular of the Company dated 24 January 2011..

### Contingent liabilities

In December 2011, the Company filed a claim with 北京仲裁委員會 ("Beijing Arbitration Commission") against one of its coalbed methane suppliers (the "CBM Supplier"), China United Coalbed Methane Corporation Limited, claiming for financial losses of approximately RMB407,193,000 arising from insufficient supply of coalbed methane under contract. In February 2012, the CBM Supplier filed a counterclaim with the Beijing Arbitration Commission against the Company, claiming for (i) financial losses of approximately RMB155,336,000; (ii) late payment interest of approximately RMB3,771,000; and (iii) financial loss arising from early termination of contract of approximately RMB102,775,000. As at the Latest Practicable Date, the parties were still in mediation and no settlement agreement or judgment had yet been made. The Directors consider, based on the latest legal advice obtained from the Company's PRC legal counsel, that the Company has a valid defence against the above counterclaim. The Group's buildings are held for its own use and prepaid lease payments for land under operating leases with carrying amounts of approximately RMB8,884,000 and RMB8,543,000 respectively as at 31 March 2013 were subjected to guarantee in relation to these proceedings.

As at 31 December 2012, a customer initiated claims against a subsidiary of the Group for compensation of approximately RMB6,954,000 arising from alleged failure on the part of the subsidiary to supply gas under contract. The court ruled against the compensation claim of the customer on 7 November 2012. The customer subsequently filed an appeal. The Directors consider, based on the latest legal advice obtained from the Group's legal counsel, that the subsidiary has a valid defence against the above claim.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 31 March 2013. The Directors have confirmed that there have not been any material adverse changes in the indebtedness and contingent liabilities of the Group since 31 March 2013 and up to the Latest Practicable Date.

**Disclaimer**

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 31 March 2013, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

Save as disclosed above, the Directors have confirmed that up to the Latest Practicable Date, there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 March 2013 and up to the Latest Practicable Date.

## 3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances and other internal resources available together with the Finance Lease Arrangement, the Group has sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

## 4. MATERIAL ADVERSE CHANGE

The Group's LNG plant in Qinshui County, Shanxi has been suspended for major overhaul between February 2012 and April 2012 as the Directors expected very tight supply of natural gas in China during that period and the scheduled maintenance of LNG plant has been overdued. The Group therefore suffered from a sharp decline in turnover and recorded a loss of approximately RMB55,130,000 for the year ended 31 December 2012.

Save as disclosed above, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

## 5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL INFORMATION OF THE GROUP

Set out below is the management discussion and analysis of the Group's business, financial results and position for each of the three years ended 31 December 2012.

**For the year ended 31 December 2010**

*Turnover*

Turnover amounted to RMB230.99 million in 2010, represented approximately 577% increase compared to RMB40.06 million in 2009. Turnover comprised two main categories, namely, sales of liquefied coalbed gas and sales of piped natural gas and gas supply connection services, which amounted to approximately RMB212.57 million, and RMB18.42 million respectively in 2010.

*Cost of sales and gross profit*

Cost of sales increased to RMB205.56 million in 2010 from RMB37.01 million in 2009. Gross margin of the Group was approximately 11.1% in 2010.

*Other revenue and net income*

Other revenue decreased by approximately RMB0.22 million to RMB0.14 million in 2010 from that of approximately RMB0.36 million in 2009.

*Distribution costs and administrative expenses*

Distribution costs increased significantly by approximately RMB4.10 million to RMB4.19 million in 2010 from that of RMB0.08 million in 2009.

Administrative expenses amounted to approximately RMB29.19 million in 2010 which was 39.3% higher than that of approximately RMB20.95 million in 2009.

*Other operating expenses*

Other operating expenses increased by approximately RMB0.63 million to RMB0.65 million in 2010 from RMB0.02 million in 2009.

*Finance costs*

Finance costs amounted to approximately RMB9.68 million in 2010 which was comparable to approximately RMB4.26 million in 2009. The Group incurred finance costs on procuring other borrowings for the development of new liquefied coalbed gas business in Shanxi Province.

*Foreign exchange exposure*

Most of the Group's operating transactions, assets and liabilities are primarily denominated in either Renminbi or Hong Kong dollar. The Directors believed that Renminbi will remain relatively stable against Hong Kong dollar in the foreseeable future and considered the Group's present exposure to exchange risk is relatively minimal. The Group implemented no financial arrangements for hedging purpose during the year 2010.

*Financial resources and liquidity*

As at 31 December 2010, the Group had net assets of approximately RMB454.33 million (RMB269.85 million at 31 December 2009), including cash, bank and deposits balances of approximately RMB23.57 million (RMB96.29 million at 31 December 2009). As at 31 December 2010, the Group had bank and other borrowings of approximately RMB68 million (2009: RMB65 million at 31 December 2009). The Group's gearing ratio, calculated by dividing the Group's total external borrowings by its shareholders fund was approximately 15.7%. As at 31 December 2010, RMB13 million (2009: RMB15 million) of the bank borrowings were secured by the Group's property, plant and equipment with a total carrying amount of approximately RMB38.16 million (2009: RMB41.26 million) and prepaid lease payments for land under operating leases with the carrying amount of approximately RMB8.71 million (2009: RMB10.30 million).

*Significant investments held*

The Group had no significant investments held during the year ended 31 December 2010.

*Material acquisitions and disposals*

On 9 February 2010, the Company entered into the sale and purchase agreement and has conditionally agreed to sell 100% of the issued share capital of Shine Science & Technology (BVI) Company Limited for an aggregate consideration of RMB60 million. The disposal obtained the approval of the Company's shareholders at the extraordinary general meeting held on 10 May 2010.

On 11 May 2010, the Group has executed an acquisition agreement in respect of the acquisition of Million Ideas Investment Limited in Shanxi for a consideration of RMB178 million of which RMB165 million was settled by the zero coupon convertible bond in a principal amount of HK$187.50 million issued by the Company to the vendor or its nominees. Consent of the shareholders for this acquisition has been obtained in the extraordinary general meeting held on 12 July 2010. The acquisition was completed on 16 July 2010.

*Contingent liabilities*

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (Circular 698) issued by the State Administration of Taxation on 10 December 2009, where a foreign investor transfers its shares in an overseas holding company which holds Chinese resident companies in the PRC, and if the PRC tax authority considers that the foreign investor adopts abusive arrangement in order to avoid PRC tax, it will disregard the existence of the overseas holding company and the gains derived from such transfer may be subject to the PRC withholding tax at a rate of 10%. Accordingly, the directors made a provision on tax liability and tax surcharge in respect of the disposal of Shine Science BVI Group of approximately RMB3.49 million and RMB0.41 million respectively in the consolidated financial statements for the year ended 31 December 2010. Apart from the tax liability and tax surcharge mentioned above, the Company has not provided for further tax penalty as the amount is not ascertainable.

*Employees and remuneration policy*

As at 31 December 2010, the Group had an aggregate of 155 employees of which 10 were research and development staff, 14 were finance and account staff, 29 were administrative staffs and 18 were marketing staff, 68 were production staff and 16 were security staff. Staff costs, including directors' remuneration, was approximately RMB21.04 million (2009: RMB28.74 million) for the year ended 31 December 2010. Employee remuneration is maintained at market competitive level and will be regularly reviewed within the general framework of the Group's human resources system. Remuneration policy is basically determined with reference to individual performance as well as financial results of the Group which will be revised from time to time when performance of staff is warranted.

**For the year ended 31 December 2011**

*Turnover*

Turnover amounted to RMB253.85 million in 2011, represented approximately 7.1% increase compared to RMB237.02 million in 2010. Turnover comprised two main categories, namely, sales of liquefied coalbed gas and sales of piped natural gas and gas supply connection services, which amounted to approximately RMB225.86 million, and RMB27.99 million respectively in 2011.

*Cost of sales and gross profit*

Cost of sales increased to RMB239.68 million in 2011 from RMB205.26 million in 2010. Gross margin of the Group was approximately 5.6% in 2011.

*Other revenue and net income*

Other revenue increased significantly by approximately RMB35.98 million to RMB36.12 million in 2011 from that of approximately RMB0.14 million in 2010 as a result of recognition of compensation income of approximately RMB34.06 million for the delay in completion of power system in Ruyang Industrial Zone.

*Distribution costs and administrative expenses*

Distribution costs decreased by approximately RMB2.45 million to RMB1.73 million in 2011 from that of RMB4.19 million in 2010.

Administrative expenses amounted to approximately RMB59.33 million in 2011, compared with that of approximately RMB29.19 million in 2010.

*Other operating expenses*

Other operating expenses increased by approximately RMB3.61 million to RMB4.26 million in 2011 from RMB0.65 million in 2010.

*Finance costs*

Finance costs amounted to approximately RMB8.76 million in 2011 which was comparable to approximately RMB9.68 million in 2010. The Group incurred finance costs on procuring other borrowings for the development of coalbed methane gas blocks in Shanxi Province.

*Foreign exchange exposure*

Most of the Group's operating transactions, assets and liabilities are primarily denominated in either Renminbi or Hong Kong dollar. The Directors believed that Renminbi will remain relatively stable against Hong Kong dollar in the foreseeable future and considered the Group's present exposure to exchange risk is relatively minimal. The Group implemented no financial arrangements for hedging purpose during the year 2011.

*Financial resources and liquidity*

As at 31 December 2011, the Group had net assets of approximately RMB1,081.40 million (RMB454.33 million at 31 December 2010), including cash, bank and deposits balances of approximately RMB21.70 million (RMB23.57 million at 31 December 2010). As at 31 December 2011, the Group had bank and other borrowings of approximately RMB62.90 million (RMB68 million at 31 December 2010). The Group's gearing ratio, calculated by dividing the Group's total external borrowings by its shareholders fund was approximately 6.0%. As at 31 December 2011, RMB8 million (2010: RMB13 million) of the bank borrowings were secured by the Group's property, plant and equipment with a total carrying amount of approximately RMB30.19 million (2010: RMB38.16 million) and prepaid lease payments for land under operating leases of approximately RMB Nil (2010: RMB8.71 million).

*Significant investments held*

The Group had no significant investments held during the year ended 31 December 2011.

*Material acquisitions and disposals*

On 6 April 2011, the Company (as purchaser) entered into an acquisition agreement (as supplemented by a supplemental agreement dated 25 May 2011) with Mr. Wang Zhong Sheng ("Mr. Wang"), an executive Director and substantial shareholder of the Company, (as vendor) ("the Acquisition Agreement") pursuant to which the Company conditionally agreed to acquire and Mr. Wang conditionally agreed to sell the 100% issued share capital of Wealthy Talent Global Investments Limited for a consideration of HK$499 million (equivalent to approximately RMB420 million). The consideration was satisfied upon completion by the Company by the issue of the convertible bonds to Mr. Wang or its nominee(s) which shall be a company controlled by him. Based on the conversion price at HK$0.26 per share and assuming full conversion, 1,919,230,769 conversion shares will be allotted and issued. The Acquisition Agreement constituted a major and connected transaction of the Company. The Acquisition Agreement was approved by the independent shareholders of the Company on 20 June 2011. The Acquisition was completed on 12 July 2011.

*Contingent liabilities*

During the year 2011, a customer initiated claims against a subsidiary of the Group for compensation of approximately RMB6.95 million arising from alleged failure on the part of the subsidiary to supply gas under contract. The directors of the Company consider, based on the legal advice obtained from the Group's legal counsel, that the subsidiary has a valid defence against the above claim and, accordingly, no provision has been made in the financial statement for the year ended 31 December 2011, being the date to which the latest audited financial statements of the Group, in relation to these proceedings.

*Employees and remuneration policy*

As at 31 December 2011, the Group had an aggregate of 538 employees of which 87 were research and development staff, 224 were engineering and customer service staff, 194 administrative staff and 33 marketing staff. Staff costs, including directors' remuneration and share-based payment, was approximately RMB28.17 million (2010: RMB21.04 million) for the year ended 31 December 2011. Employee remuneration is maintained at market competitive level and will be regularly reviewed within the general framework of the Group's human resources system. Remuneration policy is basically determined with reference to individual performance as well as financial results of the Group which will be revised from time to time when performance of staff is warranted.

**For the year ended 31 December 2012**

*Financial Review*

The Group recorded a consolidated turnover of approximately RMB183,834,000 for the year, representing a decrease of approximately 27.6% compared with last year. The decrease was mainly attributable to:

(i) approximately RMB80,224,000 decline in sales of liquefied coalbed gas in China. The decline in sales was attributable to: firstly, the LNG plants being shut down for equipment maintenance from February 2012 to April 2012; secondly, decrease in liquefied gas production and insufficient LNG supplied to the market due to default of China United Coalbed's suppliers and their suspension of supply of piped coalbed gas; thirdly, significant decrease in sales of trading liquefied coalbed gas during the year due to unstable prices in the LNG market in 2012.

The Group recorded gross loss of approximately RMB28,461,000 for the year, mainly attributable to:

(i) the LNG plants being shut down for equipment maintenance and the supplier suspend the supply of piped coalbed gas, resulting in increase in production costs as a result of the production capability of LNG plants not being fully utilized;

(ii) significant decline in turnover due to the significant decrease in sales of trading liquefied coalbed gas during the year.

The Group recorded a loss for the year attributable to equity shareholders of the Company for approximately RMB55,130,000, compared with the loss attributable to equity shareholders of approximately RMB45,016,000 for last year. The reasons for the loss are as follows:

(i) decrease in gross profit from main business of RMB42,632,000 as a result of lower market price of LNG compared to 2011 and the increase in production costs of our plants as well as significant decline in turnover due to the significant decrease in sales of trading liquefied coalbed gas during the year;

(ii) the loss of approximately RMB2,339,000 arising from impairment on goodwill of our piped natural gas operation as a result of the difficult operating environment that has lasted since 2010 in Guangxi Province, PRC;

(iii) increase in the compensation income (included in other income) of approximately RMB16,690,000 to compensate for the delay in completion of power supply system in the industrial zone located in Ruyang County; and

(iv) decline in the fair value of other financial assets of approximately RMB17,051,000. Successful achievement of the Warranted Profit of RMB40 million for the year of 2012 by Luoyang Shunhe resulted in fair value loss on the Group's other financial assets.

The balance of the Group's trade and other payables increased significantly by approximately RMB152,791,000. This was mainly attributable to the Group's focus on natural gas exploration and extraction business in 2012, which needed ground work, drilling and pipeline placement for CBM wells. These projects are now under construction without delivery, inspection and settlement, resulting in significant increase in property, plant and equipment payables.

*Business Review and Development Prospects*

Natural gas exploration and extraction:

As at 31 December 2012, the Group already completed the ground work and drilling of 220 CBM wells, of which 85 wells were ready for immediate gas output. The number of wells drilled was slightly below our previous expectation due to geological and technical difficulties. However, the Group has already solved such geological and technical issues and the Board expect to accelerate the drilling program in 2013. The Group expects to complete the ground work and drilling of 320 CBM wells by the end of 2013 and 500 CBM wells by the end of 2014. The average gas production volume of the existing 85 wells is 800 cubic meter per day per well currently and is expected to increase to 1,500 cubic meter per day per well on average by the end of 2013. The Group expects its overall gas output to exceed 300,000 cubic meter per day by the end of 2013 and 500,000 cubic meter per day by end of 2014. As the construction of the Group's natural gas pipeline for delivery of gas from the production field to the liquefaction plant has been essentially completed in 2012, the Group will start to generate revenue, profit and cash flow from the gas operation approximately the same time.

Liquefaction operation:

As at 31 December 2012, the Group's LNG capacity was 500,000 cubic metre per day. However, due to the tight supply of domestic natural gas within China, the Group experienced difficulty in sourcing enough natural gas feed for its downstream liquefaction purpose, and therefore, the utilisation of our LNG plants was low and unsatisfactory. However, the above situation has been improved after the Group has started its own gas production in the fourth quarter of 2012. Furthermore, the Group suspended the operation of the LNG plant for an overhaul between February 2012 and April 2012, which resulted in the sharp decline in turnover and operating cashflow of our Group. The LNG plant has resumed operation since May 2012. After the major overhaul, the Group expects the LNG plant to become more efficient and cost effective, that will increase the revenue, profit and cashflow contribution to the Group in 2013 because of the increase in our self-produced gas production supply.

Marketing and sales:

In view of the strong demand of liquefied natural gas in central China due to the rising industrial and residential demands, the Group developed the vertical integration structure to supply liquefied natural gas from its LNG plant in Qinshui County, Shanxi Province to its customers in surrounding areas through its own distribution pipes. The vertical integration structure can reduce risk of gas supply disruption and increase profit margins. The Group can also decide its customer mix in order to maximise the profit margins. In 2013, the Group will actively expand the natural gas consumption market by making the most of its exclusive natural gas operation right in Ruyang County, Henan Province and in Beiliu City, Guangxi Province. Meanwhile, through the project of building gas stations along the mature transportation routes within China and the market development and maintenance of end users, the Group is able to secure a long term demand from major users while the Group can optimise the overall sales mix and therefore maximise our profit margin.

However, the Group's operations in Ruyang Industrial Zone have not started during the Review Period mainly due to the delay in the completion of the power supply system in the Ruyang Industrial Zone which was newly constructed. The management company of the Ruyang Industrial Zone explained that the delay in completion of the power supply system was due to some unforeseeable technical and administrative difficulties, and agreed to pay the Group a compensation income for all the losses incurred due to the delay. After a series of discussion and negotiation with the management company of the Industrial Zone, the Group was granted a before tax compensation income of approximately RMB34,000,000 in 2011.

Having said that, we were informed by the management company of the Ruyang Industrial Zone that the power supply system has been completed and started to supply power on 29 October 2012. And we started the gas sales to our customers on December 2012. Moreover, the Group will increase the utilization of the LNG plant by participating in the regional gas trading market to generate more revenue. Nevertheless, the profit margin of the gas trading business will be lower than that of the piped natural gas business.

The Board have been informed that the power supply system is expected to be completed and starting operating before the beginning of 2013, and by then the sales of gas to our customers will be commenced after testing. Moreover, the Group will increase the utilisation of the LNG plant by participating in the regional gas trading market so as to generate more revenue. Nevertheless, this will not be our major business. The trading business only generates a thin margin, but it is one of the measures to minimise the idle capacity and to generate more revenue.

The Group believes that it is not in breach of the obligation under GEM Listing Rule 17.10 because the Group was reasonably confident that the compensation income from the management company of the Ruyang Industrial Zone would be paid up, as stipulated in the aforesaid agreements. Alternatively, if the management failed to satisfy the compensation obligation, Mr. Wang, the vendor of the acquisition in relation to, among other things, Luoyang Shunhe would be required to compensate the Group to make up the profit shortfall of the Warranted Profit of RMB40 million in 2012, which in turn will not materially affect the revenue of the Group. As such, the Directors consider that the delay in completion of power supply system has not triggered the Company's disclosure obligations under GEM Listing Rule 17.10.

*Liquidity, Financial Resources and Capital Structure*

As at 31 December 2012, the Group had net assets of approximately RMB1,022,703,000, including cash and bank balances of approximately RMB29,437,000. To minimise 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 11%.

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.

*Employees*

As at 31 December 2012, the Group has an aggregate of 533 employees, of which 88 are research and development staff, 221 are engineering and customer service staff, 192 administrative staff and 32 marketing staff. During the year, the staff costs (including Directors' remuneration and share-based payment) was approximately 24,834,000 (2011: approximately RMB28,167,000).

The salary and bonus policy of the Group is principally determined by the performance of the individual employee. The Group will on an ongoing basis, provides opportunity for professional development and training to its employees.

*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*

The Group did not have significant investment as at 31 December 2012.

## (1) RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## (2) DISCLOSURE OF INTEREST

### (a) Directors' and chief executive's interests or short positions in the shares, underlying shares and debentures of the Company and associated corporations

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) 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 or short positions which the Directors or chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

*Long position in the Shares*

| Name | Capacity | Number of Shares/underlying Shares | Approximate % of shareholding |
|---|---|---|---|
| Mr. Wang Zhong Sheng | Beneficial owner | 2,042,512,887 *(Note 1)* | 46.39% |
| | Interest of controlled corporation | 120,790,000 *(Note 2)* | 2.74% |
| Mr. Zhang Qing Lin | Beneficial Owner | 2,500,000 *(Note 3)* | 0.06% |
| Mr. Fu Shou Gang | Beneficial Owner | 2,500,000 *(Note 4)* | 0.06% |

*Notes:*

1. Out of the 2,042,512,887 Shares, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 2,500,000 Shares under the share option scheme adopted by the Company on 18 May 2011; (ii) a holder of convertible bonds convertible to 1,059,230,769 conversion shares; and (iii) a beneficial owner of 980,782,118 Shares.

2. 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.

3. Mr. Zhang Qing Lin is interested as a grantee of options to subscribe for 2,500,000 Shares under the share option scheme adopted by the Company on 18 May 2011.

4. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 2,500,000 Shares under the share option scheme adopted by the Company on 18 May 2011.

## (b) Substantial Shareholders

Save as disclosed below, so far as is known to the Directors, as at the Latest Practicable Date, the following person(s), other than a Director or chief executive of the Company, had or were deemed to have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were 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 meetings of any member of the Group, or held any option in respect of such capital:

*Long position in the Shares*

| Name | Capacity | Number of Share | Approximate % of shareholding |
|---|---|---|---|
| Ms. Zhao Xin *(Note)* | Interest of spouse | 2,163,302,887 | 49.14% |

*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.

## (3) LITIGATION

As at the Latest Practicable Date, a customer initiated claims against a subsidiary of the Group for compensation of approximately RMB6,954,000 arising from alleged failure on the part of the subsidiary to supply gas under contract. The Directors consider, based on the legal advice obtained from the Group's legal counsel, that the subsidiary has a valid defence against the above claim and, accordingly, no provision has been made in the financial statement of the year ended 31 December 2012, in relation to these proceedings.

Please also refer to the paragraph headed "Contingent liabilities" in Appendix I to this circular in relation to an arbitration proceeding in which the Company was involved as at the Latest Practicable Date.

Save as disclosed in this circular, there was no litigation or claims of material importance pending or threatened against any member of the Group as at the Latest Practicable Date.

## (4) MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular:

(a) the placing agreement dated 4 August 2011 entered into among Jumbo Lane Investments Limited ("Jumbo Lane"), Mr. Wang Zhong Sheng ("Mr. Wang"), Kingsway Financial Services Group Limited ("Kingsway") and Vision Finance International Company Limited ("Vision Finance") together with the subscription agreement dated 4 August 2011 entered into among the Company, Jumbo Lane and Mr. Wang, pursuant to which (i) Kingsway and Vision Finance had agreed to place, on behalf of the Jumbo Lane and Mr. Wang and on a best effort basis, an aggregate of up to 400,000,000 existing Shares (of which 200,000,000 Shares are from Jumbo Lane and 200,000,000 Shares are from Mr. Wang) at the placing price of HK$0.60 per placing share; and (ii) the Jumbo Lane and Mr. Wang had respectively and conditionally agreed to subscribe for, and the Company had conditionally agreed to issue and allot, subscription shares at subscription price of HK$0.60 per subscription share;

(b) the framework agreement dated 28 February 2012 entered into between the Company and Longmen Hui Cheng Investment Limited (龍門匯成投資有限公司) in relation to co-operation in China's coalbed methane gas sector;

(c) the Finance Lease Agreement;

(d) the Guarantees;

(e) the Share Pledge Agreement; and

(f) the placing agreement dated 14 March 2013 entered into between the Company and Vision Finance International Company Limited (as placing agent), pursuant to which the Company had conditionally agreed to place, through Vision Finance International Company Limited, on a best effort basis, a maximum of 400,000,000 Shares to independent investors at a price of HK$0.25 per Share.

## (5) SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation), between any of the Directors and any member of the Group.

## (6) INTERESTS IN CONTRACTS AND ASSETS

(a) Save as disclosed herein, there was no other transaction which needs to be disclosed as connected transaction in accordance with the requirements of the GEM Listing Rules;

(b) Save as disclosed herein, there was no other contract of significance in relation to the Group's business subsisted as at the Latest Practicable Date to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly; and

(c) None of the Directors has or 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 2012, being the date to which the latest published audited accounts of the Group were made up.

## (7) COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, controlling Shareholders (as defined in the GEM Listing Rules) or substantial Shareholders or any of their respective associates had an interest in a business which competes or may compete with the business of the Group or had any other conflict of interest which any such person has or may have with the Group.

**(8) MISCELLANEOUS**

(a) The registered office of the Company is situated at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and the principal place of business of the Company in Hong Kong is situated at Room 3705, 37th Floor, 148 Electric Road, North Point, Hong Kong.

(c) The company secretary and qualified accountant of the Company is Mr. Lui Chi Keung, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(d) The Company's Audit Committee was established on 28 July 2003 and is currently composed of all three independent non-executive Directors, namely, Mr. Luo Wei Kun, Ms. Pang Yuk Fong (Chairman) and Mr. Wang Zhi He. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports; (b) to serve as a focal point for communication between Directors, the external auditors and internal auditors; (c) to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system; and (d) to review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor. Currently, Mr. Luo Wei Kun is an independent non-executive director of Tianjin Jinran Public Utilities Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1265). Save as the aforesaid, the members of the Company's Audit Committee do not hold directorships in any listed companies.

(e) The Company's compliance officer is Mr. Wang Zhong Sheng, who is also an executive Director.

**(9) DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's head office and principal place of business in Hong Kong at Room 3705, 37th Floor, 148 Electric Road, North Point, Hong Kong on any weekday other than public holidays from the date of this circular up to and including the date of the EGM:

(a) the memorandum of association and articles of association of the Company;

(b) the annual reports of the Company for each of the two years ended 31 December 2012;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(d) this circular.

# China Leason CBM & Shale Gas Group Company Limited
# 中國聯盛煤層氣頁岩氣產業集團有限公司

(formerly known as China Leason Investment Group Co., Limited 中國聯盛投資集團有限公司)
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 8270)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "Meeting") of China Leason CBM & Shale Gas Group Company Limited (the "Company") will be held at Conference Room, Building 27-2, Yard No. 1, Disheng North Street, Beijing Economic – Technological Development Area, Beijing, the People's Republic of China on 27 May 2013 (Monday) at 12:00 noon for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

## ORDINARY RESOLUTION

"**THAT** the finance lease agreement entered into, among other things, between 山西沁水順泰能源發展有限公司 (Shanxi Qinshui Shuntai Energy Development Company Limited) ("Qinshui Energy") (as lessee and seller) and 中集融資租賃有限公司 (CIMC Capital Ltd.) ("CIMC") (as lessor and purchaser) on 21 May 2012, pursuant to which, among other things, (i) Qinshui Energy conditionally agreed to sell and CIMC conditionally agreed to purchase certain liquefied natural gas equipments (the "Equipments") for a total consideration of RMB95,000,000; and (ii) Qinshui Energy conditionally agreed to lease from CIMC, and CIMC conditionally agreed to lease to Qinshui Energy, the Equipments for a total lease consideration of RMB114,570,000 for a term of 36 months by monthly installments inclusive of interest with a lump sum handling fee in the sum of RMB950,000 and subject to floating lending interest rate as promulgated by People's Bank of China from time to time (the "**Finance Lease Agreement**") (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) and the transactions contemplated therein be and are hereby approved, confirmed and ratified; and

**THAT** each of the directors of the Company be and is hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents and take all steps which may be in his opinion necessary, desirable or expedient to implement and/or give effect to the terms of the Finance Lease Agreement and the transactions contemplated thereunder."

By Order of the Board
**China Leason CBM & Shale Gas Group Company Limited**
(formerly known as China Leason Investment Group Co., Limited)
**WANG ZHONG SHENG**
*Executive Director*

Hong Kong, 22 April 2013

*Registered office:*
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business in Hong Kong:*
Room 3705, 37th Floor
148 Electric Road
North Point
Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not be a member of the Company.

2. A proxy form of the Meeting is enclosed. If the appointer is a corporation, the proxy form must be made under its common seal or under the hand of an officer or attorney duly authorised on its behalf.

3. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting (or any adjournment thereof), either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

4. In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

5. Completion and delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting or at any adjournment thereof (as the case may be) and, in such event, the instrument appointing a proxy shall be deemed to be revoked.