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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8270)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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.

This announcement, for which the directors (the "Directors") of China Leason CBM & Shale Gas 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, and that there are no other matters the omission of which would make any statement herein or this announcement misleading.

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.

FINANCIAL HIGHLIGHTS

- Turnover of the Company together with its subsidiaries (collectively the "Group") for the nine months ended 30 September 2013 was approximately RMB120,955,000, representing an increase of approximately 2.29% as compared with the corresponding period in the previous financial year.

- The Group realised a loss of approximately RMB64,010,000 for the nine months ended 30 September 2013.

- Loss per share of the Company was approximately RMB1.13 cents for the nine months ended 30 September 2013.

- The board of Directors (the "Board") does not recommend the payment of any dividend for the nine months ended 30 September 2013.

CONDENSED CONSOLIDATED RESULTS

The unaudited consolidated results of the Group for the three months ended 30 September 2013 (the "Quarter") and the nine months ended 30 September 2013 (the "Review Period"), together with the unaudited comparative figures for the corresponding periods in 2012, respectively were as follows:

(Unless otherwise stated, all financial figures in this quarterly report are denominated in Renminbi ("RMB"))

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Quarter ended 30 September**		**Nine months ended 30 September**	
		2013	2012	**2013**	2012
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited)*	***(unaudited)***	*(unaudited)*
Turnover	*2*	**44,660**	44,367	**120,955**	118,247
Cost of sales		**(51,848)**	(44,485)	**(139,472)**	(140,999)
Gross loss		**(7,188)**	(118)	**(18,517)**	(22,752)
Other revenue and net income	*2*	**1**	821	**1,275**	961
Distribution costs		**(1,984)**	(702)	**(4,636)**	(2,258)
Administrative and other operating expenses		**(8,414)**	(11,516)	**(30,919)**	(34,425)
Finance costs		**(4,906)**	(2,062)	**(13,805)**	(5,036)
Loss before income tax		**(22,491)**	(13,577)	**(66,602)**	(63,510)
Income tax	*3*	**1,155**	189	**2,592**	3,079
Loss for the period		**(21,336)**	(13,388)	**(64,010)**	(60,431)
Attributable to:					
Equity shareholders of the Company		**(21,509)**	(11,692)	**(61,617)**	(56,038)
Non-controlling interests		**173**	(1,696)	**(2,393)**	(4,393)
Loss for the period		**(21,336)**	(13,388)	**(64,010)**	(60,431)
Dividends attributable to the period	*4*	**—**	—	**—**	—
Loss per share					
— basic (cents)	*5*	**(0.39)**	(0.30)	**(1.13)**	(1.42)
— diluted (cents)		**(0.39)**	(0.30)	**(1.13)**	(1.42)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company									
(Unaudited)	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**General reserve** *RMB'000*	**Translation reserve** *RMB'000*	**Share option reserve** *RMB'000*	**Convertible bonds reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2013	**34,828**	**878,366**	**2,412**	**1,506**	**30,763**	**241,209**	**(189,024)**	**1,000,060**	**22,643**	**1,022,703**
Changes in equity for the nine months ended 30 September 2013										
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(61,617)**	**(61,617)**	**(2,393)**	**(64,010)**
Exchange differences arising from translation	**—**	**—**	**—**	**(1,675)**	**—**	**—**	**—**	**(1,675)**	**—**	**(1,675)**
Total comprehensive expenses for the period	**—**	**—**	**—**	**(1,675)**	**—**	**—**	**(61,617)**	**(63,292)**	**(2,393)**	**(65,685)**
Issue of new shares										
— Share placement	**3,227**	**77,454**	**—**	**—**	**—**	**—**	**—**	**80,681**	**—**	**80,681**
— Conversion of convertible bonds	**9,278**	**231,931**	**—**	**—**	**—**	**(241,209)**	**—**	**—**	**—**	**—**
— Transaction costs attributable to issue of new shares	**—**	**(2,830)**	**—**	**—**	**—**	**—**	**—**	**(2,830)**	**—**	**(2,830)**
Equity-settled share based payments	**—**	**—**	**—**	**—**	**592**	**—**	**—**	**592**	**—**	**592**
Balance at 30 September 2013	**47,333**	**1,184,921**	**2,412**	**(169)**	**31,355**	**—**	**(250,641)**	**1,015,211**	**20,250**	**1,035,461**

	Attributable to equity shareholders of the Company									
(Unaudited)	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**General reserve** *RMB'000*	**Translation reserve** *RMB'000*	**Share option reserve** *RMB'000*	**Convertible bonds reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2012	**34,828**	**878,366**	**1,523**	**1,528**	**28,376**	**241,209**	**(133,408)**	**1,052,422**	**28,975**	**1,081,397**
Changes in equity for the nine months ended 30 September 2012										
Loss for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(56,038)**	**(56,038)**	**(4,393)**	**(60,431)**
Exchange differences arising from translation	**—**	**—**	**—**	**(733)**	**—**	**—**	**—**	**(733)**	**—**	**(733)**
Total comprehensive expenses for the period	**—**	**—**	**—**	**(733)**	**—**	**—**	**(56,038)**	**(56,771)**	**(4,393)**	**(61,164)**
Equity-settled share based payments	**—**	**—**	**—**	**—**	**2,388**	**—**	**—**	**2,388**	**—**	**2,388**
Balance at 30 September 2012	**34,828**	**878,366**	**1,523**	**795**	**30,764**	**241,209**	**(189,446)**	**998,039**	**24,582**	**1,022,621**

NOTES:

1. Basis of presentation of financial statements

The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They are prepared under the historical cost convention.

The unaudited consolidated results for the Review Period have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee. The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results for the Review Period are consistent with those used in the Company's annual financial statements for the year ended 31 December 2012.

The Group has not early adopted the new and revised HKFRS that have been issued but are not yet effective, the Group is in the process of assessing the impact of these new and revised HKFRS on the financial performance and financial position of the Group.

The Group principally operates in the People's Republic of China (the "PRC") with its business activities principally transacted in RMB, the results of the Group are therefore prepared in RMB.

2. Turnover, other revenue and net income

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services), sales of piped natural gas and provision of gas supply connection services.

Turnover represents the sales value of goods supplied and services provided to customers, which excludes value-added and business taxes, and is after deduction of any goods returns and trade discounts.

The amount of each significant category of revenue recognised in turnover during the Quarter and the Review Period are as follows:

	Quarter ended 30 September		**Nine months ended 30 September**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Turnover				
Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	**40,788**	35,595	**97,858**	92,751
Sales of piped natural gas and provision of gas supply connection services	**3,872**	8,772	**23,097**	25,496
	44,660	44,367	**120,955**	118,247
Other revenue and net income				
Interest income from bank deposits	**1**	8	**28**	23
Other net income	**—**	813	**1,247**	938
	1	821	**1,275**	961

3. Income tax

(a) Hong Kong profits tax

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the Review Period 2013 and 2012.

No provision for Hong Kong profits tax has been made as the Group did not derive any income subject to Hong Kong profits tax during the Review Period.

(b) Overseas income tax

Taxes on incomes assessable elsewhere were provided for in accordance with the applicable tax legislations, rules and regulations prevailing in the territories in which the Group operates. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

There was no significant unprovided deferred taxation for the Quarter and the Review Period.

4. Dividends

The Board does not recommend the payment of any dividend for the Review Period (corresponding period in 2012: Nil).

5. Loss per share

The calculation of basic and diluted loss per share for the Quarter and the Review Period were based on the unaudited loss attributable to shareholders for the Quarter and the Review Period of approximately RMB21,509,000 and approximately RMB61,617,000 respectively (corresponding periods in 2012: loss of approximately RMB11,692,000 and loss of approximately RMB56,038,000 respectively), and the weighted average number of Shares in issue of the Company for the Quarter and the Review Period are both 5,461,735,792 shares (corresponding periods in 2012 are both 3,942,505,023 shares). The weighted average number of shares in issue was calculated based on the number of shares in issue or deemed to be in issue before placing but after corresponding adjustments by the Company upon capitalisation of share premium.

Diluted earnings per share

No dilutive earnings per share was presented because there were no dilutive potential ordinary shares in existence during the Quarter and the Review Period. There were also no dilutive potential ordinary shares in existing during the same periods in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a consolidated turnover of approximately RMB120,955,000 for the Review Period, representing a rise of approximately 2.3% compared with the corresponding period last year. Details of the structure and change of revenue are as follows:

(i) The LNG plant in Qinshui County, Shanxi Province was shut down for major overhaul between February 2012 and April 2012. However, the production has increased as compared with the corresponding period last year as the equipment was operating under normal capacity for the Review Period, therefore operating income generated from liquefied coalbed gas has increased by approximately RMB2,708,000. As the income generated from liquefied coalbed gas has increased, in order to meet the demand for the Group's logistic services, we cut back the external sales of logistics services for the Review Period which offset the increase in sales of liquefied coalbed gas during the Review Period.

(ii) Due to the increase in the production of liquefied coalbed gas, the production cost of liquefied coalbed gas was lowered, resulting in the decrease in gross loss of approximately RMB4,235,000 for the Review Period as compared with the corresponding period last year.

Loss attributable to shareholders for the Review Period was approximately RMB61,617,000, compared with the loss attributable of shareholders of approximately RMB56,038,000 last year. The reasons for the increase in loss are as follows:

(i) The production of liquefied coalbed gas has increased during the period, therefore the cost of liquefied coalbed gas was lowered, resulting in the decrease in gross loss as compared with the corresponding period 2012.

(ii) Along with the increase in the operating income from liquefied coalbed gas, the distribution costs increased by approximately RMB2,378,000.

(iii) As a result of the entering into of a finance lease agreement and other borrowings, the finance costs increased by approximately RMB8,769,000.

BUSINESS REVIEW AND DEVELOPMENT PROSPECTS

Natural gas exploration and extraction: As at 30 September 2013, the Group has already completed the ground work and drilling of 228 CBM wells, of which 126 wells were in production. The number of wells drilled was slightly below our previous expectation as the Group focused on facilitating the progress of production and stabilising the gas output. The Board expects to accelerate the output of production wells in the fourth quarter of 2013. The average gas production volume of the existing wells ready for immediate gas output is 800 cubic meters per day per well. As the construction of the Group's natural gas pipelines for delivery of gas from the production field to the liquefaction plant has been essentially completed in 2012, the Group has started to generate revenue, profit and cash flow from the business of exploitation of natural gas.

Liquefaction operation: As at 30 September 2013, the Group's LNG production capacity was 500,000 cubic metres per day. However, due to the tight supply of domestic natural gas within the PRC, the Group experienced difficulty in sourcing enough natural gas feed for its downstream liquefaction purpose, therefore, the utilization of the Group's LNG plants was relatively low and unsatisfactory. However, the above situation has improved after the Group has started its own gas production in the fourth quarter of 2012. The ex-factory price of LNG has increased along with the increase of the price of natural gas in the PRC since last quarter. Currently, the operation of LNG plant has been steady. The revenue, profit and cashflow contribution to be generated from the liquefaction operation to the Group are expected to increase due to the increase in supply of the self-produced gas.

Marketing and sales: In view of the strong demand of LNG in central PRC due to the rising industrial and residential demands, the Group developed the vertical integration structure to supply LNG 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. The Group will actively expand the natural gas consumption market by making full use 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 alongside the mature transportation routes within PRC and the market development and maintenance of end users, the Group is able to secure a long term demand from major users as well as to optimise the overall sales mix and therefore maximise our profit margin. The Group's related gas pipelines placement works in the Ruyang Industrial Zone was in progress. Meanwhile, we started to use cylinder group and skid-mounted equipment to sell gas to our customers. Moreover, the Group will increase the utilisation of the LNG plant by continuously 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 profit margin, but it is one of the measures to minimise the idle capacity and to generate more revenue.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2013, the Group had net assets of approximately RMB1,035,461,000, including cash, bank and deposit balances of approximately RMB20,630,000. To minimise financial risks, the Group implements stringent financial and risk management strategies and avoids the use of highly-leveraged financing arrangements. The Group's gearing ratio, calculated by the Group's total external borrowings divided by its shareholders' fund, was approximately 9.8%.

Although the Group has no plan in fund raising currently, 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 30 September 2013, the Group has an aggregate of 555 employees, of which 88 are research and development staff, 238 are engineering and customer service staff, 216 administrative staff and 13 marketing staff. During the Review Period, the staff cost (including Directors' remuneration) was approximately RMB16,586,000 (for the nine months ended 30 September 2012: approximately RMB17,718,000). 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.

OUTLOOK

The Board believes that the Company will sustain long term development and maintain its leading position in PRC natural gas market given its vertical integration business structure that reduces, or eliminates risks of fluctuation in gas supply, gas price and earning visibility. According to the 12th Five-Year Plan for the period from years 2011 to 2015 promulgated by the PRC government, natural gas users in PRC will increase by 100 million to a total of 250 million. On the nationwide gas market basis, 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 midstream LNG plants and downstream gas sales and distribution, and therefore reducing the gas supply risk in the long run. The current situation of gas supply inadequacy and the consequential loss arising from operations are just temporary and it is likely that the business will turn profitable and show phenomenal growth in the near future as the Group accelerates its gas production and the rising trend of the price of LNG in the PRC continues.

Furthermore, the Group, with its own gas supply, is less affected by gas price fluctuation in the international natural gas market. Moreover, increase in gas price in the international market would in fact make our gas products and supply more competitive and increase our profit margin given our lower operation cost resulting from 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 long term development and become a strong market leader. After a series of corporate restructuring, the Group believes that the buildout of the Group's vertical integration structure is almost complete and now it is high time for the Group to move to the second stage — the growing phase. The Group expects to turn the business into profitable in the near future. On the upstream exploration and production front, as the development of wells gradually matures, the number of wells ready for gas output would increase and the daily production per well would rise. On the other hand, the construction of the pipelines that transport gas to the LNG plants in Qinshui County from the Group's own gas fields has been essentially completed. Upon China United Coalbed Methane Co., Ltd ("China United") resuming its supply of gas in November this year, it is expected that the amount of gas supply will increase by around 200,000 cubic meters per day. The Group can since then increase its own LNG plants utilization and mitigate losses by feeding more self-produced gas to the LNG plants. More importantly, the utilization of the downstream LNG transportation trunks and the storage facilities would also increase. As the gas price increases, demand for gas in China remains strong and the Group's supply constraints unleash, the Group expects the gas sales in the fourth quarter of 2013 to grow significantly and the profitability to improve substantially. In the near future, the Group will mainly focus on upstream CBM exploration and production on the existing CBM assets. Meanwhile, the Group will be opportunistic in value-accretive upstream gas asset acquisition, if any.

MATERIAL TRANSACTIONS AND EVENTS

The Placing

The Company and the placing agent, Vision Finance International Company Limited (the "Placing Agent") entered into the placing agreement on 14 March 2013, whereby the Company conditionally agreed to place, through the Placing Agent, on a best efforts basis, a maximum of 400,000,000 placing shares of the Company to independent investors at a price of HK$0.25 per placing share (the "Placing").

The 400,000,000 placing shares represent (i) approximately 9.99% of the then issued share capital of the Company of 4,002,505,023 shares; and (ii) approximately 9.09% of the then Company's issued share capital of 4,402,505,023 shares as enlarged by completion of the Placing.

The Placing was completed on 9 April 2013. The net proceeds from the Placing of approximately HK$96.4 million has been and will be used for the drilling of wells and natural gas pipeline construction work. For details of the Placing, please refer to the announcements of the Company dated 15 March 2013 and 9 April 2013 respectively.

Cancellation of the Memorandum of Co-operation in respect of the possible subscription by Beijing Enterprises Holdings Limited

On 20 June 2013, the Company, Beijing Enterprises Holdings Limited (the "Subscriber") and the Placing Agent entered into the Memorandum of Co-operation pursuant to which the Company conditionally agreed to place, through the Placing Agent, 9,300,000,000 shares of the Company (the "Placing Shares") to the Subscriber (or its wholly-owned subsidiary(ies)) at a price of HK$0.26 per Placing Share (the "Placing and Subscription").

Under Rule 26.1 of the The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), the Subscriber (or its wholly-owned subsidiary(ies)) would be obliged to make a mandatory general offer to the shareholders of the Company for all the issued shares and other securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it unless a whitewash waiver is obtained from the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (the "Executive").

On 4 September 2013, the Company confirmed the cancellation of the Memorandum of Co-operation by the Subscriber and thus there was no Placing and Subscription and the offer period ended on 30 August 2013. On the other hand, the Company and Beijing Enterprises Group Company Limited, the parent company of the Subscriber have commenced discussions to explore possible ways of cooperation.

For details of the Memorandum of Co-operation and its cancellation, please refer to the announcements of the Company dated 26 June 2013, 25 July 2013 and 4 September 2013.

Finance Lease Agreement

On 21 May 2012, Shanxi Qinshui Shuntai Energy Development Company Limited ("Qinshui Energy"), a direct wholly-owned subsidiary of the Company entered into a conditional finance lease agreement in relation to the sale and lease of equipments (the "Finance Lease Agreement") with CIMC Capital Limited ("CIMC"), pursuant to which, (i) Qinshui Energy conditionally agreed to sell, and CIMC conditionally agreed to purchase certain liquefied natural gas equipment 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 said equipment 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). The lease consideration may be adjusted according to the floating lending interest rate to be promulgated by People's Bank of China from time to time.

As the applicable percentage ratios of the Finance Lease Agreement exceeded 25% but less than 100%, the Finance Lease Agreement constituted a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. The Finance Lease Agreement was approved by the shareholders by way of ordinary resolution at the extraordinary general meeting of the Company held on 27 May 2013. For details of the Finance Lease Agreement, please refer to the announcements of the Company dated 21 May 2012 and 27 May 2013, and the circular of the Company dated 22 April 2013 respectively.

Increase in Authorised Share Capital

The Company increased the authorised share capital from HK$100,000,000 divided into 10,000,000,000 Shares to HK$200,000,000 divided into 20,000,000,000 shares by the creation of an additional 10,000,000,000 new shares by passing an ordinary resolution by shareholders at the extraordinary general meeting of the Company held on 18 June 2013.

For details of the increase in authorised share capital of the Company, please refer to the announcements of the Company dated 24 May 2013 and 18 June 2013 and the circular of the Company dated 30 May 2013.

Non-legally Binding Cooperation Agreement

On 28 February 2012, the Company entered into a framework agreement (the "Cooperation Agreement") to cooperate with Longmen Hui Cheng Investment Limited (龍門匯成投資有限公司) ("Longmen Hui Cheng"). By entering into the Cooperation Agreement, the Company hoped to closely co-operate with Longmen Hui Cheng in all areas and intended to form a strategic alliance with Longmen Hui Cheng in China's coalbed methane gas sector to form a vertically integrated alliance to cover all the upstream, midstream and downstream areas in the coalbed methane gas value chain (the "Cooperation Project"). Both parties have agreed that a joint working group will be formed immediately following the signing of the Cooperation Agreement to push forward the subsequent signing of a formal agreement. As at the date of this announcement, no binding agreement in relation to the Cooperation Project has been entered into and the Cooperation Project may or may not proceed. For details, please refer to the announcement of the Company dated 29 February 2012.

Conversion of Convertible Bonds

On 4 July 2013, (i) 340,000,000 shares of the Company were issued to Mr. Wang Zhong Sheng, an executive Director, the chairman and substantial shareholder of the Company and (ii) 479,230,769 shares were issued to two independent third parties on exercise of their respective conversion rights under the convertible bonds issued by the Company due on 12 July 2013 (the "Convertible Bonds").

Immediately after the issue and allotment of an aggregate of 819,230,769 Shares pursuant to the exercise of the conversion rights under the Convertible Bonds, (i) there were a total of 5,461,735,792 shares of the Company in issue; and (ii) outstanding options of the Company to subscribe for a total of 247,260,000 Shares under the share option scheme of the Company adopted on 18 May 2011.

For details, please refer to the announcement of the Company dated 4 July 2013.

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

As at 30 September 2013, 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	120,790,000 *(Note 1)*	2.21%
	Beneficial owner	Personal	1,323,282,118 *(Note 2)*	24.23%
Mr. Fu Shou Gang	Beneficial owner	Personal	2,500,000 *(Note 3)*	0.05%

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.

2. Out of the 1,323,282,118 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 2,500,000 shares under the new share option scheme adopted by the Company on 18 May 2011; and (ii) a beneficial owner of 1,320,782,118 issued shares of the Company.

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

Save as disclosed above, as at 30 September 2013, 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 Review Period.

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

As at 30 September 2013, 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)*	1,444,072,118	Interest of spouse	26.44%

Note:

Ms. Zhao Xin (the spouse of Mr. Wang Zhong Sheng) is deemed to be interested in her spouse's interest in the Company which represent the same parcel of shares held by Mr. Wang Zhong Sheng and Jumbo Lane Investments Limited or which any of he/it is interested in pursuant to the SFO.

Save as disclosed above, as at 30 September 2013, 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 those 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 Review Period 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 2013	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 30 September 2013	Date of grant of share options	Exercise period of share options	Exercise price per share option *(HK$)*	Share price of the Company as at the date of grant of share options *(HK$)*
Executive Directors									
Mr. Wang Zhong Sheng	2,500,000	—	—	—	2,500,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Mr. Zhang Qing Lin *(Note (iii))*	2,500,000	—	—	—	— *(Note (iii))*	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Mr. Fu Shou Gang	2,500,000	—	—	—	2,500,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
	7,500,000	—	—	—	5,000,000				
Employees	39,740,000	—	—	—	42,240,000 *(Note (iii))*	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Consultants	200,020,000	—	—	—	200,020,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Total	247,260,000	—	—	—	247,260,000				

Notes:

(i) The terms and conditions of the grants that existed during the Review Period 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 2013	0.495	247,260,000
Granted during the Review Period	—	—
Outstanding as at 30 September 2013	0.495	247,260,000
Exercisable as at 30 September 2013	0.495	247,260,000

The options outstanding as at 30 September 2013 had an exercise price of HK$0.495 and a weighted average remaining contractual life of 7.5 years.

(iii) Mr. Zhang Qing Lin retired as an executive Director on 27 May 2013.

CONTINGENT LIABILITIES

(i) During the year ended 31 December 2011, the Company filed a claim with 北京仲裁委員會 ("Beijing Arbitration Commission") against China United Coalbed Methane Co., Ltd. (中聯煤層氣有限責任公司) ("China United"), claiming for financial losses of approximately RMB407,193,000 arising from insufficient supply of coalbed methane under contract. In February 2012, China United 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. The Directors consider, based on the legal advice obtained from the Company's PRC legal counsel, that the Company has a valid defence against the above counterclaim and, accordingly, no provision has been made in the consolidated financial statements for the six months ended 30 September 2013 and ended 30 September 2012, respectively in relation to these proceedings. The details of the settlement on contractual dispute are disclosed on page 15.

(ii) During the year ended 31 December 2011, a customer claim 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. On 3 June 2013, Shanxi Province Higher People's Court ruled that the subsidiary of the Group did not violate the contract and no compensation is required to be made.

AMOUNT OF CAPITALISED INTEREST

Save as disclosed in this announcement, no interest has been capitalised by the Group during the Review Period.

CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS

As at 30 September 2013, the Company had outstanding options to subscribe for 247,260,000 shares under the New Share Option Scheme adopted on 18 May 2011. Details of the New Share Option Scheme are disclosed on page 13 of this announcement.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, 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 Review Period, 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.

SUBSEQUENT EVENTS

Settlement on contractual dispute

On 18 October 2013, the Company has reached a settlement agreement (the "Settlement Agreement") with China United regarding a contractual dispute (the "Dispute") in the supply of gas. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, China United is independent of, and not connected with, the Company and its connected persons.

The Company has reached the Settlement Agreement with China United under the mediation of the Beijing Arbitration Commission with the following key settlement proposals:

1. The parties will resume the performance under the Gas Supply Contracts, and the parties will enter into supplemental agreement to amend the disputed terms under the Gas Supply Contracts ("Supplemental Agreement") and such negotiation shall be concluded within two weeks from the date of the Settlement Agreement; and

2. The parties will strengthen their co-operation by jointly investing in exploration and extraction of liquefied coalbed gas (煤層氣) in Shanxi Baibiguan area (山西白壁關區塊) (with an exploration area of approximately 237 square kilometres) and Liaoning Chenbei area (遼寧沈北區塊) (with an exploration area of approximately 76 square kilometres) (the "Exploration Project"). As China United has already conducted preliminary exploration work in both areas, the Group will compensate China United with an exploration fee of RMB30,000,000 for its preliminary exploration work, which shall be paid within 6 months after completion of the procedures for the joint co-operation in the exploration work and the formal commencement of the joint co-operation. The investment and profit sharing ratio is 30% (China United) and 70% (the Company). If the finalised profit sharing ratio for the Group is lower than 70%, the expenses incurred in the preliminary exploration work shall be shared by the parties in proportion to their profit sharing ratio. Details of the co-operation shall be set out in the co-operation contract to be entered into by the parties. The parties shall enter into a co-operation contract for the exploration and extraction in liquefied coalbed gas in the aforesaid areas within 2 weeks from the date of the Settlement Agreement and complete the approval and filing procedures of the co-operation contract within one month, and the parties may agree to extend the deadline in case of policy adjustment or force majeure events. If the Company decides not to proceed with the co-operation in the Exploration Project, the relevant clause of the Settlement Agreement will be automatically terminated and would not constitute a breach of contract.

The Dispute is still under the review of the Beijing Arbitration Commission but the parties agree that the Settlement Agreement shall form the basis for the arbitration results. After conclusion of the arbitration, both parties agree not to proceed further against the other party regarding the Dispute or the Gas Supply Contract.

The Board cautions that there can be no assurance that any definitive agreement will be executed in respect of the co-operation of the Exploration Project or that the Exploration Project will be approved by the Company. As the date of this announcement, no Supplemental Agreement and co-operation contract on the Exploration Project are signed.

For details, please refer to the announcement of the Company dated 21 October 2013.

Memorandum of Co-operation in respect of the possible subscription by Beijing Enterprises Energy Development (Holdings) Company Limited

On 26 October 2013, the Company and Beijing Enterprises Energy Development (Holdings) Company Limited (the "Subscriber"), entered into the Memorandum of Understanding pursuant to which the Company agreed to issue, subject to the fulfilment of the conditions precedent contained therein, 9,000,000,000 to 10,000,000,000 Subscription Shares to the Subscriber at a price of HK$0.26 per Subscription Share pursuant to the terms of the Formal Agreement.

Under the Memorandum of Understanding, the Company and the Subscriber will use their best endeavours to engage in the negotiation of the terms of the subscription with the aim of finalising the Formal Agreement within one month after the date of the Memorandum of Understanding (or such later date as the parties may agree in writing). In the event that the Formal Agreement is not entered into within one month after the date of the Memorandum of Understanding (or such later date as the parties may agree in writing), the Memorandum of Understanding will lapse. The implementation and consummation of the subscription is subject to the signing of the Formal Agreement.

Immediately after completion of the Subscription, if materialised, the Subscriber and parties acting in concert with it will in aggregate be interested in more than 30% of the issued share capital of the Company.

Under Rule 26.1 of the Takeovers Code, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it unless a whitewash waiver is obtained from the Executive. In this regard, the Subscriber will make an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares after the signing of the Formal Agreement.

Completion of the Subscription is to be subject to the satisfaction of the conditions precedent described in the Memorandum of Understanding and the terms of the Formal Agreement. As at the date of this announcement, no Formal Agreement in relation to the Subscription Shares has been entered and the subscription may or may not proceed. For details, please refer to the announcements of the Company dated 28 October 2013.

CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of the Director since the date of the annual report of the Company for the year ended 31 December 2012 are set out below:

Name of Director	Details of changes
Mr. Kwok Shun Tim	appointed as executive director of Convoy Financial Services Holdings Limited (Stock code: 1019), a company of which shares are listed on Main Board of the Stock Exchange, with effect from 30 April 2013 and ceased to be the deputy chief supervisor of Hong Kong Road Safety Patrol

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules on 28 July 2003. The primary duties of the audit committee are, among others, to review and oversee the financial reporting principles and practices adopted as well as internal control procedures and issues of the Group. It also reviews quarterly, interim and the final results of the Group prior to recommending the same to the Board for consideration.

The audit committee comprises of the three independent non-executive Directors, namely Mr. Wang Zhi He, Mr. Luo Wei Kun and Ms. Pang Yuk Fong (Chairman).

During the Review Period, the audit committee has held two meetings. The Group's unaudited consolidated results for the Review Period have been reviewed and commented by the audit committee members.

In order to maintain a high quality of corporate governance, the Group continue to employ a qualified accountant in this Quarter and will still employ a qualified accountant in the coming years. The audit committee also concluded that the Group has employed sufficient staff for the purpose of accounting, financial and internal control.

CORPORATE GOVERNANCE

During the Review Period, save as disclosed below, the Company has complied with the code provisions in the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules (the "Code").

Under code provision A.4.1 of the Code, non-executive directors should be appointed for specific terms, subject to re-election. Currently, the non-executive Directors and the independent non-executive Directors have no set 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. The Board considers the current arrangement will allow flexibility to the Board in terms of appointment of Directors.

Under code provision A.2.1 of the Code, the roles of chairman and the chief executive should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive". This deviates from code provision A.2.1 of the Code.

Mr. Wang Zhong Sheng, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with code provision A.2.1 of the Code and will continue to consider the feasibility of appointing a separate chief executive. The Company will make timely announcement if the chief executive has been appointed.

The Company has adopted a code of conduct regarding securities dealings by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all Directors, the Company was not aware of any non-compliance with such code of conduct during the Review Period.

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.

By order of the Board
Wang Zhong Sheng
Chairman

China, 13 November 2013

As at the date hereof, the executive Directors are Mr. Wang Zhong Sheng, Mr. Shi Liang, Mr. Fu Shou Gang and Mr. Kwok Shum Tim and the independent non-executive Directors are Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He.