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 and continued in Bermuda with limited liability)
(Stock code: 8270)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
For the three months ended 31 March 2014

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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 three months ended 31 March 2014 was approximately RMB49,253,000, representing an increase of 46.9% as compared with corresponding period in the previous financial year.

- The Group realised a loss of approximately RMB17,548,000 for the three months ended 31 March 2014.

- Basic loss per share attributable to equity shareholders of the Company was approximately RMB0.16 cent for the three months ended 31 March 2014.

- The board of Directors (the "Board") does not recommend the payment of any dividend for the three months ended 31 March 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The unaudited condensed consolidated results of the Group for the three months ended 31 March 2014 (the "Quarter") together with the unaudited comparative figures for the corresponding period in 2013, respectively were as follows:—

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

		Three months ended 31 March	
	Note	**2014** ***RMB'000*** **(unaudited)**	2013 *RMB'000* (unaudited)
Turnover	*2*	**49,253**	33,527
Cost of sales		**(50,136)**	(42,842)
Gross loss		**(883)**	(9,315)
Other revenue and net income	*2*	**10**	1,265
Distribution costs		**(683)**	(998)
Administrative expenses		**(12,833)**	(14,488)
Other operating expenses		**(18)**	(4)
Finance costs		**(4,953)**	(3,966)
Loss before income tax		**(19,360)**	(27,506)
Income tax credit	*3*	**1,812**	1,986
Loss for the period		**(17,548)**	(25,520)
Attributable to:			
Equity shareholders of the Company		**(15,580)**	(24,357)
Non-controlling interests		**(1,968)**	(1,163)
Loss for the period		**(17,548)**	(25,520)
Dividends attributable to the period	*4*	**—**	—
Loss per share	*5*		
— basic (cents)		**(0.16)**	(0.61)
— diluted (cents)		**(0.16)**	(0.61)

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Three months ended 31 March	
	2014	2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss for the period	**(17,548)**	(25,520)
Other comprehensive income/(expense) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign entities	**685**	(54)
Total comprehensive expense for the period	**(16,863)**	(25,574)
Total comprehensive expense attributable to:		
Equity shareholders of the Company	**(14,895)**	(24,411)
Non-controlling interests	**(1,968)**	(1,163)
	(16,863)	(25,574)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(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*
	Attributable to equity shareholders of the Company									
Balance at 1 January 2014	47,333	1,184,921	5,094	(130)	30,849	—	(462,640)	805,427	15,322	820,749
Loss for the period	—	—	—	—	—	—	(15,580)	(15,580)	(1,968)	(17,548)
Other comprehensive income for the period	—	—	—	685	—	—	—	685	—	685
Total comprehensive expense for the period	—	—	—	685	—	—	(15,580)	(14,895)	(1,968)	(16,863)
Issue of new shares										
— Share placement	6,927	56,804	—	—	—	—	—	63.731	—	63,731
— Open offer	24,965	74,896	—	—	—	—	—	99,861	—	99,861
Transaction costs attributable to issue of new shares	—	(3,725)	—	—	—	—	—	(3,725)	—	(3,725)
Balance at 31 March 2014	79,225	1,312,896	5,094	555	30,849	—	(478,220)	950,399	13,354	963,753

(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*
	Attributable to equity shareholders of the Company									
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
Loss for the period	—	—	—	—	—	—	(24,357)	(24,357)	(1,163)	(25,520)
Other comprehensive expense for the period	—	—	—	(54)	—	—	—	(54)	—	(54)
Total comprehensive expense for the period	—	—	—	(54)	—	—	(24,357)	(24,411)	(1,163)	(25,574)
Issue of new shares										
— conversion of convertible bonds	497	12,434	—	—	—	(12,931)	—	—	—	—
Equity-settled share-based payments	—	—	—	—	414	—	—	414	—	414
Balance at 31 March 2013	35,325	890,800	2,412	1,452	31,177	228,278	(213,381)	976,063	21,480	997,543

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 Quarter 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 Quarter are consistent with those used in the Company's annual financial statements for the year ended 31 December 2013.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (the "new and revised HKFRS").

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 is as follows:

	Three months ended 31 March	
	2014	2013
	RMB'000	*RMB'000*
Turnover		
Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	**40,246**	23,987
Sales of piped natural gas and provision of gas supply connection services	**9,007**	9,540
	49,253	33,527
Other revenue and net income		
Interest income from bank deposits	**10**	18
Other net income	**—**	1,247
	10	1,265

3. Income tax

(a) Hong Kong profits tax

Hong Kong Profit Tax is calculated at 16.5% of the estimated assessable profits for the period ended 31 March 2014 and 2013.

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 Quarter.

(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.

4. Dividends

The Board does not recommend the payment of any dividend for the Quarter (corresponding period in 2013: Nil).

5. Loss per share

The calculation of basic and diluted loss per share for the Quarter were based on the unaudited loss attributable to shareholders for the Quarter of approximately RMB15,580,000 (corresponding period in 2013: loss of approximately RMB24,357,000), and the weighted average number of 9,512,603,688 (corresponding period in 2013: 4,002,505,023) shares in issue of the Company. 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. There were also no dilutive potential ordinary shares in existence during the corresponding period in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a consolidated turnover of approximately RMB49,253,000 for the Quarter, representing an increase of approximately 46.9% compared with the corresponding period of last year. The increase was mainly attributable to the increase in production compared with the previous period as a result of the increase in number of wells in production, and China United Coalbed Methane Co., Ltd. ("China United") started to resume the supply of gas in November 2013, therefore, the operating income generated from sales of liquefied coalbed gas has increased by approximately RMB16,259,000.

Loss attributable to equity shareholders of the Company for the Quarter was approximately RMB15,580,000, compared with the loss attributable to equity shareholders of approximately RMB24,357,000 for the previous period. The reasons for the loss are as follows:

(i) During the Quarter, the gross loss of the Group was RMB883,000 while that of the previous period was RMB9,315,000. The increase in the CBM well production from the gas field in Yangcheng and the resumption of gas supply from China United started in November 2013, drastically enhanced the production efficiency of the Qinshui Shuntai LNG plant, and reduced the production cost per unit, resulting in a decrease in gross loss by RMB8,432,000 during the Quarter;

(ii) The finance cost increased by approximately RMB987,000 as a result of the increase in the finance charges on obligations under finance lease compared with the corresponding period of last year; and

(iii) Income tax credit for approximately RMB1,812,000, compared with income tax credit for approximately RMB1,986,000 in the corresponding period last year, mainly due to the recognition of deferred tax assets in relation to the amortisation of intangible assets.

BUSINESS REVIEW AND DEVELOPMENT PROSPECTS

Natural gas exploration and extraction:

As at 31 March 2014, the Group has already completed the ground work and drilling of 228 CBM wells, of which 146 wells were in production, representing an increase of 8 wells compared with the number of wells at the end of 2013. The Board expects to accelerate the drilling program in 2014, and expects to complete the ground work and drilling of 70 CBM wells during 2014, resulting in a total of 298 CBM wells by the end of 2014. The average gas production volume of the existing production wells is 800 cubic metres per day per well. The Group expects its overall gas output exceed 200,000 cubic metres per day by the end of 2014. As the construction of the Group's natural gas pipelines for delivery of gas from the gas fields to the LNG plant has been completed and put into operation, the utilisation rate of Qinshui Shuntai LNG plant is expected to significantly improve in the future.

Liquefaction operation:

As at 31 March 2014, the Group's LNG production capacity was 500,000 cubic metres per day. No significant improvement of the tight supply of domestic natural gas was seen in China. The Group experienced difficulty in sourcing enough natural gas feed for its downstream liquefaction purpose and the utilisation of our LNG plants was unsatisfactory. However, the utilisation rate of Qinshui Shuntai LNG plant will be improved gradually as the production volume of Huiyang gas block increases, as well as the expected increase of the supply from other gas suppliers, which will increase the revenue, profit and cash flow contribution to the Group.

Marketing and sales:

The Group has developed the vertical integration structure to supply LNG from Qinshui Shuntai LNG plant in Qinshui County, Shanxi Province through its own distribution pipes and through the distribution network in Henan, Hebei and Guangxi provinces to its customers in surrounding areas. The vertical integration structure can reduce the risk of gas supply disruption and increase profit margins. After years of development, the Group has developed a diversified customer base comprising industrial, commercial and resident customers and established complete distribution channel and network. In addition, we have also taken different measures to maximise the profitability of our gas sale. During the Quarter, we used different sales mix and flexibly selected various equipment such as pipeline, cylinder group, gas station and skid-mounted equipment to sell gas to our customers. With commencement of the related work, we will be able to reduce the uncertainty in future natural gas sales and optimize our sales mix, i.e. shifting towards a balanced mix from a residential user dominated mix. We will strive to ramp up the business progressively in 2014, and contribute more earnings to the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2014, the Group had net assets of approximately RMB963,753,000, including cash and bank balances of approximately RMB66,585,000. 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 12.7%.

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 scaling-down of any current business.

EMPLOYEES

As at 31 March 2014, the Group has an aggregate of 518 employees, of which 86 are research and development staff, 242 are engineering and customer service staff, 168 administrative staff and 22 marketing staff. During the Quarter, the staff cost (including Directors' remuneration) was approximately RMB5,729,960 (For the three months ended 31 March 2013: approximately RMB5,480,000). 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 China's natural gas market given its vertical integration business structure that reduces, or eliminates risks in gas supply, gas price fluctuation and earning visibility. In light of a 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. Viewing from 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. The current situation of inadequate gas supply and the consequent loss arising from operation are only temporary and it is likely that the business will turn profitable and show phenomenal growth as the Group's gas production accelerates in the near future.

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 from the Group's Huiyang gas block to Qinshui Shuntai LNG Plant has been essentially completed. China United has resumed its supply of gas since November 2013. Currently, the gas supply of China United is around 100,000 cubic meters per day, which, the Group expects, will rise to around 200,000 cubic meters per day from the third quarter of the year 2014. The Group can since then increase its own LNG plants utilization and mitigate losses by feeding more self-produced gas to Qinshui Shuntai LNG Plant. 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 2014 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.

MAJOR TRANSACTIONS AND EVENTS

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"). Pursuant to the Cooperation Agreement, the Company wished to closely co-operate with Longmen Hui Cheng in all areas and intends 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"). A joint working group will be formed 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.

Completion of the Subscription

On 20 December 2013, Mr. Wang and RHB OSK Securities Hong Kong Limited entered into a placing agreement, and the Company and Mr. Wang entered into a subscription agreement, pursuant to which (i) RHB OSK Securities has agreed to place, on behalf of Mr. Wang and on a best effort basis, an aggregate of up to 880,000,000 existing Shares (beneficially owned by Mr. Wang) to not less than six placees at the placing price of HK$0.092 per placing share (the "Placing"); and (ii) Mr. Wang has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue and allot, the subscription shares equivalent to the number of placing shares successfully placed at the subscription price of HK$0.092 per subscription share (the "Subscription").

The Placing was completed on 30 December 2013. The Subscription took place on 3 January 2014 whereby 880,000,000 Subscription Shares were allotted and issued to Mr. Wang at the subscription price of HK$0.092 per subscription share. The net proceeds from the subscription were approximately HK$79,658,000, and they have been used for (i) repayment of bank and other borrowings, (ii) drilling of wells, (iii) natural gas pipeline construction work, and (iv) general working capital.

For details of the Subscription, please refer to the announcements of the Company dated 22 December 2013 and 3 January 2014.

Results of the Open Offer

On 20 December 2013, the Board proposes to raise not less than approximately HK$109,200,000 and not more than approximately HK$131,700,000, before expenses, by an open offer of not less than 2,730,867,896 offer shares and not more than 3,293,247,896 offer shares at the open offer price of HK$0.04 per offer share, on the basis of one offer share for every two existing shares held on the record date (the "Open Offer"). On 6 February 2014, 3,170,867,896 offer shares were allotted pursuant to the Open Offer. The net proceeds from the Open Offer were approximately HK$123,405,000 (equivalent to approximately RMB97,160,000).

For details of the Open Offer, please refer to the announcements of the Company dated 22 December 2013, 15 January 2014 and 6 February 2014 and the prospectus of the Company dated 15 January 2014.

Proposed refreshment of existing general mandate to issue and allot shares

On 29 January 2014, the Board proposes to seek refreshment of the existing general mandate (the “Existing General Mandate”) for the Directors to allot and issue new shares not exceeding 20% of the issued share capital of the Company as at the date of passing of such resolution by the independent shareholders of the Company. An extraordinary general meeting of the Company has been convened on 17 March 2014 and the proposed refreshment of the existing general mandate was passed by ordinary resolution.

For details of the refreshment of the Existing General Mandate, please refer to the announcements of the Company dated 29 January 2014 and 17 March 2014, and the circular of the Company dated 28 February 2014.

Proposed change of domicile, proposed change of Company name, proposed cancellation of share premium account and proposed capital reorganisation

On 3 March 2014, the Board proposed the following changes (the "Proposed Changes"), subject to the approval of the shareholders at the extraordinary general meeting:

(1) to change the domicile of the Company from the Cayman Islands to Bermuda by way of deregistration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda (the "Change of Domicile");

(2) to reorganise the share capital of the Company by (i) consolidation of every 10 issued existing shares into one issued consolidated share; and (ii) capital reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK$0.09 on each of the issued consolidated shares such that the nominal value of each issued consolidated share will be reduced from HK$0.10 to HK$0.01 (together referred to as the "Capital Reorganisation") upon the Change of Domicile becoming effective;

(3) subject to the approval of the Registrar of Companies in Bermuda being obtained, to change the English name of the Company from "China Leason CBM & Shale Gas Group Company Limited" to "China CBM Group Company Limited" and the Chinese name of the Company from "中國聯盛煤層氣頁岩氣產業集團有限公司" to "中國煤層氣集團有限公司" upon the Change of Domicile and the Capital Reorganisation becoming effective; and

(4) to cancel the share premium account and transfer credits arising from such cancellation to the contributed surplus account of the Company.

An extraordinary general meeting of the Company has been held on 9 April 2014 and the Proposed Changes were passed by special resolutions.

The Company has been deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda and the Change of Domicile became effective on 23 April 2014 (Bermuda time).

The Capital Reorganisation became effective on 12 May 2014 (Hong Kong time). Immediately following the Capital Reorganisation, the authorised share capital of the Company is HK$200,000,000 divided into 20,000,000,000 shares of HK$0.01 each, of which 951,260,368 shares of HK$0.01 each are in issue. The board lot size for trading remains unchanged at 10,000 shares. The amount in the sum of HK$1,548,093,456 in the contributed surplus account of the Company have been applied by the Board to set off against the accumulated losses of the Company in full on the effective date of the Capital Reorganisation.

For details of the Proposed Changes, please refer to the announcements of the Company dated 3 March 2014, 12 March 2014, 9 April 2014 and 24 April 2014, and the circular of the Company dated 16 March 2014.

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

As at 31 March 2014, 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:

(a) Long positions in shares, underlying shares and debentures of the Company

Name	Capacity	Nature of Interest	Number of ordinary shares/ underlying shares	Approximate % of shareholdings
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	181,185,000 *(Note 1)*	1.90%
	Beneficial owner	Personal	1,984,420,677 *(Note 2)*	20.86%
Mr. Fu Shou Gang	Beneficial Owner	Personal	3,247,500 *(Note 3)*	0.03%

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 of the Company owned by Jumbo Lane Investments Limited pursuant to Part XV of the SFO.

2. Out of the 1,984,420,677 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 3,247,500 shares under the new share option scheme adopted by the Company on 18 May 2011; and (ii) a beneficial owner of 1,981,173,177 issued shares of the Company.

3. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 3,247,500 shares under the new share option scheme adopted by the Company on 18 May 2011.

Save as disclosed above, as at 31 March 2014, 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 Quarter.

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

As at 31 March 2014, 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/underlying shares

Name	Number of shares/ underlying shares	Nature of Interest	Percentage of shareholding
Ms. Zhao Xin *(Note)*	2,165,605,677	Interest of spouse	22.76%
RHB OSK Finance Hong Kong Limited	1,315,779,114	Person having a security interest	13.83%

Note:

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

Save as disclosed above, as at 31 March 2014, 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 pursuant to Section 336 of the SFO.

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

Apart from as disclosed under the heading "Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, at no time during the Quarter 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 during the Quarter disclosed in accordance with the GEM Listing Rules was as follows:

Name and category of participants	As at 1 January 2014	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Adjusted on 6 February 2014 as a result of the the Open Offer (note iii)	As at 31 March 2014	Date of grant of share options	Exercise period of share options	Exercise price per share option	Adjusted exercise price per share as a result of the Open Offer (note iii)	Share price of the Company as at the date of grant of share options
Executive Directors											
Mr. Wang Zhong Sheng	2,500,000	—	—	—	3,247,500	3,247,500	30/5/2011	30/5/2011 - 29/5/2021	0.495	0.381	0.495
Mr. Fu Shou Gang	2,500,000	—	—	—	3,247,500	3,247,500	30/5/2011	30/5/2011 - 29/5/2021	0.495	0.381	0.495
	5,000,000	—	—	—	6,495,000	6,495,000					
Employees	42,240,000	—	—	—	54,869,760	54,869,760	30/5/2011	30/5/2011 - 29/5/2021	0.495	0.381	0.495
Consultants	200,020,000	—	—	—	259,825,980	259,825,980	30/5/2011	30/5/2011 - 29/5/2021	0.495	0.381	0.495
	247,260,000	—	—	—	321,190,740	321,190,740					

Notes:

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

	Number of options	Vesting conditions	Remaining 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 2014 *(note iii)*	0.381	321,190,740
Granted during the period	—	—
Outstanding as at 31 March 2014	0.381	321,190,740
Exercisable as at 31 March 2014	0.381	321,190,740

The options outstanding as at 31 March 2014 had an exercise price of HK$0.381 and a weighted average remaining contractual life of 7.1 years.

(iii) As a result of the Open Offer, adjustment has been made, among others, to the number of the share options to subscribe for shares granted and the exercise price of the outstanding share options pursuant to the New Share Option Scheme with effect from 6 February 2014.

After the aforesaid adjustment upon the completion of the Open Offer, the total number of the outstanding share options has been adjusted from 247,260,000 to 321,190,740 on 6 February 2014 and the exercise price of the outstanding share options had been adjusted from HK$0.495 to HK$0.381.

CONTINGENT LIABILITIES

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, 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 he Company has a valid defence against the above counterclaim and, accordingly, no provision has been made in the consolidated financial statements for the Quarter in relation to these proceedings.

On 18 October 2013, the Company has reached a settlement agreement with China United regarding the aforesaid contractual dispute. The Group may enter into supplemental agreement in relation to supply of gas and further cooperation contract in relation to any joint investment in exploration and extraction of liquefied coal bed gas. As at the date of this announcement, no such supplemental agreement and/or cooperation contract has been entered into between the Group and China United. For details of the settlement and possible joint investment, please refer to the announcement of the Company dated 21 October 2013.

AMOUNT OF CAPITALISED INTEREST

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

CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS

As at 31 March 2014, the Company had outstanding options to subscribe for 321,190,740 shares under the New Share Option Scheme. Details of the New Share Option Scheme are disclosed in page 14 of this announcement.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's constitutional documents, or the laws of incorporation and continuation of the Company, 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 Quarter, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

SUBSEQUENT EVENTS

Re-designation of Directorship

On 15 April 2014, Mr. Kwok Shun Tim has been re-designated to a non-executive Director of the Company from an executive Director. For details, please refer to the announcement of the Company dated 15 April 2014.

Arranger Agreement in respect of the issue of unlisted, unsecured and fixed rate Notes

On 15 April 2014, the Company and Kingsway Financial Services Group Limited (the "Arranger") entered into an arranger agreement (the "Arranger Agreement") pursuant to which the Company conditionally agrees to appoint the Arranger as the sole arranger during the period from the date of Arranger Agreement up to the date of completion or 14 May 2014 (whichever is earlier) to procure, on a best effort basis, investors to subscribe for the 10% unsecured and unlisted fixed rate notes (the "Notes") for an aggregate principal amount of up to HK$51 million at the issue price of 100% of the principal amount of the Notes (the "Proposed Notes Issue"). Upon successful procurement of the investors by the Arranger, a subscription agreement will be entered into between the Company as issuer and each investor as subscriber in respect of the Proposed notes Issue. For details of Arranger Agreement, please refer to the announcement of the Company dated 15 April 2014.

The Company has proceeded with the Proposed Notes Issue and on 16 April 2014, entered into the subscription agreement with each of the subscribers of the Notes in respect of the Notes Issue. For the details of Notes Issue, please refer to the announcement of the Company dated 16 April 2014.

AUDIT COMMITTEE

The Company established an audit committee (the "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 Quarter, the Audit Committee has held one meeting. The Group's unaudited consolidated results for the Quarter have been reviewed and commented by the Audit Committee's members.

The audit committee concluded that the Group has employed sufficient staff for the propose of accounting, financial and internal control to maintain a high quality of corporate governance.

CORPORATE GOVERNANCE

During the Quarter, save as disclosed below, the Group 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 a specific term, subject to re-election. Currently, the non-executive Director and the independent non-executive Directors have no specific term of office but are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's constitutional document. The Board considers the current arrangement will allow flexibility to the Board in terms of appointment of Directors.

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 specified enquiry of all Directors, the Company was not aware of any non-compliance with such code of conduct during the Quarter.

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 that all of its independent non-executive Directors are independent.

By order of the Board
China Leason CBM & Shale Gas Group Company Limited
Wang Zhong Sheng
Chairman

Hong Kong, 13 May 2014

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