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

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock code: 08270)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

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 CBM Group Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, 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 2014 was approximately RMB189,149,000, representing an increase of approximately 56.38% as compared with the corresponding period in the previous financial year.

- The Group realised a loss of approximately RMB54,563,000 for the nine months ended 30 September 2014.

- Loss per share of the Company was approximately RMB4.83 cents for the nine months ended 30 September 2014.

- The board of Directors (the "Board") does not recommend the payment of any dividend for the nine months ended 30 September 2014.

CONDENSED CONSOLIDATED RESULTS

The unaudited consolidated results of the Group for the three months ended 30 September 2014 (the "Quarter") and the nine months ended 30 September 2014 (the "Review Period"), together with the unaudited comparative figures for the corresponding periods in 2013, respectively were as follows:

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

CONDENSED CONSOLIDATED INCOME STATEMENT

		Quarter ended 30 September		**Nine months ended 30 September**	
	Note	**2014** *RMB'000* **(unaudited)**	2013 *RMB'000* *(unaudited)* *(restated)*	**2014** *RMB'000* **(unaudited)**	2013 *RMB'000* *(unaudited)* *(restated)*
Turnover	*2*	**76,619**	44,660	**189,149**	120,955
Cost of sales		**(70,465)**	(51,848)	**(193,130)**	(139,472)
Gross profit/(loss)		**6,154**	(7,188)	**(3,981)**	(18,517)
Other revenue and net income	*2*	**2**	1	**33**	1,275
Distribution costs		**(2,061)**	(1,984)	**(4,417)**	(4,636)
Administrative and other operating expenses		**(11,566)**	(8,414)	**(34,380)**	(30,919)
Finance costs		**(2,882)**	(4,906)	**(13,005)**	(13,805)
Loss before income tax		**(10,353)**	(22,491)	**(55,750)**	(66,602)
Income tax	*3*	**572**	1,155	**1,187**	2,592
Loss for the period		**(9,781)**	(21,336)	**(54,563)**	(64,010)
Attributable to:					
Equity shareholders of the Company		**(7,836)**	(21,509)	**(48,248)**	(61,617)
Non-controlling interests		**(1,945)**	173	**(6,315)**	(2,393)
Loss for the period		**(9,781)**	(21,336)	**(54,563)**	(64,010)
Dividends attributable to the period	*4*	**—**	—	**—**	—
Loss per share					
— basic (cents)	*5*	**(0.78)**	(3.94)	**(4.83)**	(11.28)
— diluted (cents)		**(0.78)**	(3.94)	**(4.83)**	(11.28)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	General reserve	Translation reserve	Contributed surplus	Share option reserve	Accumulated losses	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	—	—	—	—	—	—	(48,248)	(48,248)	(6,315)	(54,563)
Other comprehensive income for the period	—	—	—	378	—	—	—	378	—	378
Total comprehensive expenses for the period	—	—	—	378	—	—	(48,248)	(47,870)	(6,315)	(54,185)
Issue of new shares										
— Share placement	6,927	56,804	—	—	—	—	—	63,731	—	63,731
— Open offer	24,965	74,896	—	—	—	—	—	99,861	—	99,861
— Subscription of new shares	1,513	45,563	—	—	—	—	—	47,076	—	47,076
Transaction costs attributable to issue of new shares	—	(3,725)	—	—	—	—	—	(3,725)	—	(3,725)
Capital reorganisation	(67,893)	(1,312,896)	—	—	877,737	—	503,052	—	—	—
Balance at 30 September 2014	**12,845**	**45,563**	**5,094**	**248**	**877,737**	**30,849**	**(7,836)**	**964,500**	**9,007**	**973,507**

(Unaudited)	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	General reserve	Translation reserve	Share option reserve	Convertible bonds reserve	Accumulated losses	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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
Loss for the period	—	—	—	—	—	—	(61,617)	(61,617)	(2,393)	(64,010)
Other comprehensive expenses for the period	—	—	—	(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

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 2013.

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**	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Turnover				
Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	**62,897**	40,788	**154,707**	97,858
Sales of piped natural gas and provision of gas supply connection services	**13,722**	3,872	**34,442**	23,097
	76,619	44,660	**189,149**	120,955
Other revenue and net income				
Interest income from bank deposits	**2**	1	**33**	28
Other net income	**—**	—	**—**	1,247
	2	1	**33**	1,275

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 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 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 payment of any dividend for the Review Period (corresponding period in 2013: 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 RMB7,836,000 and approximately RMB48,248,000 respectively (corresponding periods in 2013: loss of approximately RMB21,509,000 and loss of approximately RMB61,617,000 respectively), and the weighted average number of Shares in issue of the Company for the Quarter and the Review Period are both 998,595,529 shares (corresponding periods in 2013 are both 5,461,735,792 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 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a consolidated turnover of approximately RMB189,149,000 for the Review Period, representing an increase of approximately 56.38% compared with the corresponding period last year.

The increase was mainly attributable to the increase in production compared with the corresponding period in 2013 as a result of the increase in number of coalbed methane ("CBM") 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 RMB56,849,000.

Loss attributable to shareholders for the Review Period was approximately RMB48,248,000, compared with the loss attributable of shareholders of approximately RMB61,617,000 in the corresponding period last year. The reasons for the decrease in loss are as follows:

(i) The production of liquefied coalbed gas has increased during the Review Period, therefore the cost of liquefied coalbed gas was lowered, resulting in the decrease in gross loss as compared with the corresponding period last year and gross profit was recorded for the Quarter 2014.

(ii) The administrative expenses increased by approximately RMB3,461,000 was mainly due to the compensation for requisition for land during the period.

(iii) The finance costs slightly decreased by approximately RMB800,000 for the Review Period and decrease RMB2,024,000 for the Quarter, it was mainly due to the decrease in bank and other borrowings to RMB94,000,000 as at 30 September 2014.

Resources and reserves

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

The movements in the reserves of certain CBM properties as of 30 September 2014 are set out below:

	Reserve evaluation of the CBM properties as at 30 September 2014 BCF	**Reserve evaluation of the CBM properties as at 31 March 2012 BCF**
Total original gas in place on all blocks	2,724	2,724
Net 1P (Proved) reserves	1,419	35
Net 2P (Proved + Probable) reserves	1,869	277
Net 3P (Proved + Probable + Possible) reserves	2,282	2,050

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

Due to continued development of the gas field blocks by the Company, the number and scope of the gas production wells are relatively increased as compared with that of 2012, enabling the Company to collect more data about the CBM properties to evaluate the CBM properties more accurately. Accordingly, the Company engaged an independent professional valuer in the PRC in July 2014 to evaluate certain CBM properties of "Huiyang New Energy" in terms of net 3P (Proved + Probable + Possible) reserves, net 2P (Proved + Probable) reserves and net 1P (Proved) reserves based on substantially the same definitions and guidelines as that of NSAI in 2012. According to the results of the evaluation, the total original gas in place on all blocks was generally unchanged as compared with that of NSAI in 2012. Based on the current costs for developing wells, the technical department of the Group estimates the capital expenditure for each well to be approximately RMB2.15 million, mainly comprising of road maintenance fees of approximately RMB0.18 million, drilling expenses of approximately RMB1.16 million, well testing fees of approximately RMB0.04 million and costs of equipment and materials of approximately RMB0.77 million.

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

Business Review and Development Prospects

Natural gas exploration and extraction: As at 30 September 2014, the Group has already completed the ground work and drilling of 258 CBM wells, of which 172 wells were in production, representing an increase of 34 wells compared with the number of wells at the end of 2013. It is expected 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 30 September 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 Review Period, 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.

Impairment of goodwill

In 2010 and 2011, the Group acquired 100% equity interest in Million Ideas Group and 100% equity interest of Wealthy Talent Global Group respectively. The consideration for acquisition of Million Ideas Group was RMB178,000,000. It is mainly engaged in the provision of liquefied coalbed gas logistics services in the PRC. The consideration for acquisition of Wealthy Talent Global Group was HK$499,000,000. It is mainly engaged in the supply of natural gas and sales of liquefied natural gas ("LNG") in Henan Province.

Although the natural gas business continued to make steady growth and progress when compared with previous years, it is still under development and far behind the development schedule as expected. It has not yet brought in satisfactory return to the Group since the Acquisition of the abovementioned two Groups.

The recoverable amount of Cash Generating Unit ("CGU") of Coalbed methane exploration and development, natural gas liquefaction and LNG distribution was determined with reference to a valuation conducted by an independent valuer, based on income approach. Because of the constraint of the investment capitals, the Group changed its business plan as originally formulated in year 2012, and has designed to slow down the development programs for the CBM field by lowering the number of gas wells to be built each year. As a result of the reduced forecast number of gas wells of each of the financial years over the forecast period, the financial year when the CBM field is fully developed shall be deferred from year 2015 to year 2019. With reduced number of operating gas wells, the gas output from the CBM field are expected to tumble over the forecast period.

The Discounted Cash Flow Method has been employed for the valuation of the CGU and there is no change in the valuation method for both of the valuation as at 31 December 2012 and 31 December 2013. The discount rate used in the valuation of the CGU as at 31 December 2012 and 31 December 2013 slightly changes from 20.73% to 20.88% to reflect specific risks relating to the overall market as well as the relevant businesses and consistent with external sources of information.

As such, the recoverable amount of CGU was amounted to approximately RMB1,238 million and the impairment loss, which arose from the difference between the aggregate carrying amounts of goodwill and the recoverable amount of equity interest in Million Ideas Group and Wealthy Talent Group as at 31 December 2013, of approximately RMB163 million is recognised in respect of goodwill for the year ended 31 December 2013.

Impairment of intangible asset

Upon the acquisition of Allied Rich Group in July 2009 for an amount of approximately RMB70,470,000 for the exclusive right for piped natural gas operation in Beiliu City. With the economic slowdown domestically and in the key export markets, the pronounced weakness in industrial production has come earlier than expected. Many industrial manufacturers of Beiliu City have reacted with the market downturn by scaling down their business plans and even scrapping their plans in switching their source of fuel from coal to gas.

The Discounted Cash Flow Method has been employed for the valuation of the CGU and there is no change in the valuation method for both of the valuation as at 31 December 2012 and 31 December 2013. The discount rate used in the valuation of the CGU as at 31 December 2012 and 31 December 2013 slightly changes from 20.45% to 20.60% to reflect specific risks relating to the overall market as well as the relevant businesses and consistent with external sources of information.

As such, the recoverable amount of exclusive right for piped natural gas operation was assessed by the directors with reference to an independent professional valuation and an impairment loss of this exclusive right of approximately RMB25 million was charged to the consolidated statement of profit or loss for the year ended 31 December 2013.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2014, the Group had net assets of approximately RMB973,507,000, including cash and bank balances of approximately RMB56,261,000. 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 9.7%.

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 30 September 2014, the Group has an aggregate of 516 employees, of which 88 are research and development staff, 198 are engineering and customer service staff, 197 administrative staff and 33 marketing staff. During the Review Period, the staff cost (including Directors' remuneration) was approximately RMB18,570,000 (Review Period 2013: approximately RMB16,586,000). 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. The Company has also adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the paragraph headed "Share Option Scheme" in this announcement.

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.

Charge on assets

As at 30 September 2014, bank borrowings of RMB3,000,000 were secured by the Group's property, plant and equipment with carrying amount of approximately RMB25,709,000.

Significant investment, material acquisitions and disposal of subsidiaries

Save as disclosed in this announcement, the Group did not have any significant investment, material acquisition and disposal of subsidiaries and associated companies during the Review Period.

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 150,000 cubic meters per day. The development plan of the Group was slightly extended to 2019 due to failure to reach the expected gas supply target in previous years. 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 Zhong Sheng (the chairman of the Company, an executive Director and a substantial shareholder of the Company) ("Mr Wang") and RHB OSK Securities Hong Kong Limited ("RHB OSK Securities") 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 proposed 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).

70% of such net proceeds had been applied for the repayment of bank and other borrowings, and the remaining 30% had been used for drilling of wells and natural gas pipeline construction work.

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.

Refreshment of existing general mandate to issue and allot shares

On 29 January 2014, the Board proposed 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.

Change of domicile, change of Company name, cancellation of share premium account and 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" (the "Change of Company Name") 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 (the "Cancellation of Share Premium Account").

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.

The name of the Company has been changed from "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" to "China CBM Group Company Limited 中國煤層氣集團有限公司" with effect from 12 May 2014. Following the Change of Company Name, the stock short name of the Company for trading in the shares of the Company on the Stock Exchange has been changed from "CHINA LEASON" to "CHINA CBM" in English, and from "中國聯盛" to "中國煤層氣" in Chinese with effect from 25 June 2014.

For details of the Change of Domicile, Change of Company Name, Cancellation of Share Premium account, and Capital Reorganisation, please refer to the announcements of the Company dated 3 March 2014, 12 March 2014, 9 April 2014, 24 April 2014 and 20 June 2014, and the circular of the Company dated 16 March 2014.

Re-designation and Resignation of Directorship

On 15 April 2014, Mr. Kwok Shun Tim ("Mr Kwok") had been re-designated from an executive Director to a non-executive Director. Mr. Kwok resigned as the non-executive Director with effect from 22 July 2014 due to his personal commitments on his other business. For details of the aforesaid re-designation and resignation of directorship, please refer to the announcements of the Company dated 15 April 2014 and 22 July 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 "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 Notes Issue. For details of Arranger Agreement, please refer to the announcement of the Company dated 15 April 2014.

The Company proceeded with the 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.

On 15 May 2014 (after trading hours), the Company and the subscribers (being also the subscribers of the Notes in the aforesaid Arranger Agreement, the "Subscribers")) entered into separate and independent subscription agreements (the "Subscription Agreements"), pursuant to which, the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 190,220,000 subscription shares at a price of HK$0.305 per subscription share under the general mandate.

On 22 May 2014, due to an inadvertent mistake relating to the calculation of subscription price, the Company and the Subscribers entered into separate and independent supplemental deeds to the Subscription Agreements (the "Supplemental Deeds") pursuant to which, the previous subscription price was amended to HK$0.311.

Net proceeds of HK$58,858,000 have been raised from the subscription (being HK$0.311 per subscription share), and has been used for redeeming the Notes issued by the Company to the noteholders in full (including the settlement of the interests accrued to the Subscribers for redemption of Notes pursuant to the instrument) and applied as general working capital.

For details of the Subscription Agreements and the Supplemental Deeds, please refer to the announcement of the Company dated 15 April 2014 and 22 May 2014.

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

As at 30 September 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:

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

Name	Capacity	Nature of interest	Number of shares/ underlying shares	Approximate % of shareholdings
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 *(Note 1)*	1.59%
	Beneficial owner	Personal	198,442,067 *(Note 2)*	17.38%
Mr. Fu Shou Gang	Beneficial owner	Personal	324,750 *(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 owned by Jumbo Lane Investments Limited pursuant to Part XV of the SFO (Chapter 571 of the Laws of Hong Kong).

2. Out of the 198,442,067 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 324,750 shares under the new share option scheme adopted by the Company on 18 May 2011; and (ii) a beneficial owner of 198,117,317 issued shares of the Company.

3. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 324,750 shares under the new share option scheme adopted by the Company on 18 May 2011.

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

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

As at 30 September 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 of the Company

Name	**Number of shares**	**Nature of Interest**	**Percentage of shareholding**
Ms. Zhao Xin *(Note)*	216,560,567	Interest of spouse	18.97%
RHB OSK Finance Hong Kong Limited	197,366,867	Person having a security interest	17.29%

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 30 September 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 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 2014	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Adjusted on 6 February 2014 as a result of the Open Offer (note iii)	Adjusted on 12 May 2014 as a result of the capital reorganisation (note iv)	As at 30 September 2014	Date of grant of share options	Exercise period of share options	Exercise price of per share as at the date of grant of share options	Exercise price per share option as at 1 January 2014	Adjusted exercise price per share as a result of the Open Offer (note iii)	Adjusted exercise price per share as a result of the capital reorganisation
Executive Directors													
Mr. Wang Zhong Sheng	2,500,000	—	—	—	3,247,500	324,750	324,750	30/5/2011	320/5/2011-29/5/2021	0.495	0.495	0.381	3.81
Mr. Fu Shou Gang	2,500,000	—	—	—	3,247,500	324,750	324,750	30/5/2011	30/5/2011-29/5/2021	0.495	0.495	0.381	3.81
	5,000,000	—	—	—	6,495,000	649,500	649,500						
Employees	42,240,000	—	—	—	54,869,760	5,486,976	5,486,976	30/5/2011	30/5/2011-29/5/2021	0.495	0.495	0.381	3.81
Consultants	200,020,000	—	—	—	259,825,980	25,982,598	25,982,598	30/5/2011	30/5/2011-29/5/2021	0.495	0.495	0.381	3.81
	247,260,000	—	—	—	321,190,740	32,119,074	32,119,074						

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 2014 *(note iii and note iv)*	3.81	32,119,074
Granted during the period	—	—
Outstanding as at 30 September 2014	3.81	32,119,074
Exercisable as at 30 September 2014	3.81	32,119,074

The options outstanding as at 30 September 2014 had an exercise price of HK$3.81 and a weighted average remaining contractual life of 6.7 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.

(iv) As a result of the Capital Reorganisation, 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 12 May 2014.

After the aforesaid adjustment upon the completion of the Capital Reorganisation, the total number of the outstanding share options has been adjusted from 321,190,740 to 32,119,074 on 12 May 2014 and the exercise price of the outstanding options has been adjusted from HK$0.381 to HK$3.81.

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 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 Review Period 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 had entered into supplemental agreement in relation to supply of gas, but no further cooperation contract in relation to any joint investment in exploration and extraction of liquefied coal bed gas was entered into. As at the date of this announcement, no such 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.

Save as disclosed above, as at 30 September 2014, the Group had no material contingent liabilities.

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 2014, the Company had outstanding options to subscribe for 32,119,074 shares under the Share Option Scheme adopted on 18 May 2011. Details of New Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in this announcement.

PRE-EMPTIVE RIGHTS

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

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

During the 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.

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 2013 are set out below:

Name of Director	Details of changes
Mr. Kwok Shun Tim	resigned as (i) an independent non-executive director and (ii) the chairman of the audit committee of the board of directors, and a member of each of the nomination committee and the remuneration committee of the board of directors, of Rui Kang Pharmaceutical Group Investments Limited (Stock code: 08037), a company of which shares are listed on GEM of the Stock Exchange with effect from 30 June 2014, and resigned as executive director of Convoy Financial Services Holdings Limited (Stock code: 01019), a company of which shares are listed on Main Board of the Stock Exchange, with effect from 2 July 2014. Mr. Kwok had been re-designated from an executive Director to a non-executive Director on 15 April 2014. Mr. Kwok resigned as the non-executive Director with effect from 22 July 2014 due to his personal commitments on his other business.

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 three 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 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 bye-laws. 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
China CBM Group Company Limited
Wang Zhong Sheng
Chairman

China, 13 November 2014

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