

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 2015

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.

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This announcement, for which the directors (the “Directors”) of China CBM Group Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, 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 2015 was approximately RMB250,070,000, representing an increase of approximately 32.2% as compared with the corresponding period in the previous financial year.
- The Group realised a loss attributable to owners of the Company of approximately RMB20,186,000 for the nine months ended 30 September 2015.
- Loss per share of the Company was approximately RMB1.77 cents for the nine months ended 30 September 2015.
- The board of Directors (the “Board”) does not recommend the payment of any dividend for the nine months ended 30 September 2015.

CONDENSED CONSOLIDATED RESULTS

The unaudited consolidated results of the Group for the three months ended 30 September 2015 (the “Quarter”) and the nine months ended 30 September 2015 (the “Review Period”), together with the unaudited comparative figures for the corresponding periods in 2014, respectively were as follows:

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Quarter ended 30 September		Nine months ended 30 September	
		2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Turnover	2	91,878	76,619	250,070	189,149
Cost of sales		<u>(81,820)</u>	<u>(70,465)</u>	<u>(230,544)</u>	<u>(193,130)</u>
Gross profit/(loss)		10,058	6,154	19,526	(3,981)
Other revenue and net income	2	105	2	351	33
Distribution costs		<u>(2,327)</u>	<u>(2,061)</u>	<u>(5,697)</u>	<u>(4,417)</u>
Administrative and other operating expenses		<u>(8,878)</u>	<u>(11,566)</u>	<u>(31,364)</u>	<u>(34,380)</u>
Finance costs		<u>(2,582)</u>	<u>(2,882)</u>	<u>(9,263)</u>	<u>(13,005)</u>
Loss before income tax		<u>(3,624)</u>	<u>(10,353)</u>	<u>(26,447)</u>	<u>(55,750)</u>
Income tax (charge)/credit	3	<u>(218)</u>	<u>572</u>	<u>422</u>	<u>1,187</u>
Loss for the period		<u>(3,842)</u>	<u>(9,781)</u>	<u>(26,025)</u>	<u>(54,563)</u>
Attributable to:					
Equity shareholders of the Company		<u>(3,032)</u>	<u>(7,836)</u>	<u>(20,186)</u>	<u>(48,248)</u>
Non-controlling interests		<u>(810)</u>	<u>(1,945)</u>	<u>(5,839)</u>	<u>(6,315)</u>
Loss for the period		<u>(3,842)</u>	<u>(9,781)</u>	<u>(26,025)</u>	<u>(54,563)</u>
Dividends attributable to the period	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<i>RMB (cents)</i>	<i>RMB (cents)</i>	<i>RMB (cents)</i>	<i>RMB (cents)</i>
Loss per share					
basic	5	<u>(0.27)</u>	<u>(0.78)</u>	<u>(1.77)</u>	<u>(4.83)</u>
diluted		<u>(0.27)</u>	<u>(0.78)</u>	<u>(1.77)</u>	<u>(4.83)</u>

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		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		
Balance at 1 January 2015	9,432	102,851	8,273	(7,521)	584,838	30,849	—	728,722	6,354	735,076
Loss for the period	—	—	—	—	—	—	(20,186)	(20,186)	(5,839)	(26,025)
Other comprehensive income for the period	—	—	—	660	—	—	—	660	—	660
Total comprehensive income/ (expense) for the period	—	—	—	660	—	—	(20,186)	(19,526)	(5,839)	(25,365)
Balance at 30 September 2015	<u>9,432</u>	<u>102,851</u>	<u>8,273</u>	<u>(6,861)</u>	<u>584,838</u>	<u>30,849</u>	<u>(20,186)</u>	<u>709,196</u>	<u>515</u>	<u>709,711</u>

(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		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		
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	<u>12,845</u>	<u>45,563</u>	<u>5,094</u>	<u>248</u>	<u>877,737</u>	<u>30,849</u>	<u>(7,836)</u>	<u>964,500</u>	<u>9,007</u>	<u>973,507</u>

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 2014.

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		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover				
Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	89,685	62,897	244,969	154,707
Sales of piped natural gas and provision of gas supply connection services	2,193	13,722	5,101	34,442
	91,878	76,619	250,070	189,149
Other revenue and net income				
Interest income from bank deposits	46	2	105	33
Other net income	59	—	246	—
	105	2	351	33

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 2015 and 2014.

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 2014: 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 RMB3,032,000 and approximately RMB20,186,000 respectively (corresponding periods in 2014: loss of approximately RMB7,836,000 and loss of approximately RMB48,248,000 respectively), and the weighted average number of Shares in issue of the Company for the Quarter and the Review Period are both 1,141,480,368 shares (corresponding periods in 2014 are both 998,595,529 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 loss per share

No dilutive loss 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 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a consolidated turnover of approximately RMB250,070,000 for the Review Period, representing an increase of approximately 32.2% compared with the corresponding period last year.

The increase was mainly attributable to the increase in production compared with the corresponding period in 2014 as a result of the increase in number of coalbed methane (“CBM”) wells in production. Therefore, the operating income generated from sales of liquefied coalbed gas has increased by approximately RMB90,262,000.

Loss attributable to shareholders for the Review Period was approximately RMB20,186,000, compared with the loss attributable of shareholders of approximately RMB48,248,000 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 record of gross profit for the Review Period.
- (ii) The finance costs decreased by approximately RMB3,742,000 as a result of the decrease in the finance charges on bank and other borrowing compared with that of the corresponding period last year.

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 km² 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 2015 are set out below:

	Reserve evaluation of the CBM properties as at 30 September 2015 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	<u>2,282</u>	<u>2,050</u>

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.

Natural gas exploration and extraction

As at 30 September 2015, the Group has completed the ground work and drilling of 274 CBM wells, among which 223 wells were in production, representing an increase of 26 wells compared with the number of wells at the end of 2014. It was mainly attributed to the fact that the Company spent part of funds and put certain efforts in stabilizing and increasing the output of producing wells, which, to some extent, has led to slowdown of construction of new wells. The existing gas output wells produce approximately 800 cubic meters of gas on average per day. The Group expected that by the end of 2015, the number of total drills and wells in production will reach 311 and 266 respectively and the total gas output will exceed 200,000 cubic meters per day.

BUSINESS REVIEW AND DEVELOPMENT PROSPECTS

Liquefaction operation

As at 30 September 2015, the production capacity of the Group's LNG remained unchanged at the level of approximately 500,000 cubic meters per day. The supply of natural gas remained generally stable but the production capacity had not achieved its full potential and there is still room for growth. It is expected that the utilization rate of our LNG plants will increase after the routine maintenance of equipment in the second quarter. However, with the increase in production output of Huiyang Natural Gas Region and the expected increase of the supply from other gas suppliers, the utilization rate of the production capacity of Qinshui Shuntai LNG plant will gradually increase, which will continue to increase the income, profit and cash flow contribution to the Group.

Marketing and sales

As at 30 September 2015, the marketing and sales systems did not change significantly and the personnel structure and sales strategies basically remained the same. Affected by the overall economic environment, the sales price during traditional peak periods did not represent a substantial increase as the previous year and remained stable with a slight decrease, which, to some extent, has affected the sales performance. However, thanks to the increased production output and improved internal management, the overall sales revenue and profit were still higher than those of last year. As such, the sales system, which has been well established over years, was resilient enough to cope with the increased production output of the Company and we have successfully completed our sales target despite the generally unfavorable sales environment. In 2015, we will continue to be committed to gradually boosting our business volume to secure smooth sales channels and to make more contribution to the Group's profitability.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2015, the Group had net assets of approximately RMB709,711,000, including cash and bank balances of approximately RMB75,421,000. To minimise financial risks, the Group implements stringent financial and risk management strategies and avoids the use of highly-gearred financing arrangements. The Group's gearing ratio, calculated by the Group's total external borrowings divided by its shareholders' fund, was approximately 22.65%.

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 2015, the Group has an aggregate of 525 employees, of which 44 are research and development staff, 274 are engineering and customer service staff, 183 administrative staff and 24 marketing staff. During the Review Period, the staff cost (including Directors' remuneration) was approximately RMB19,970,000 (nine months ended 30 September 2014: approximately RMB18,570,000). 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.

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 upstream business of the Company is improving steadily and the well construction and gas output are both increasing constantly. Apart from constructing new wells, the Company made technological upgrade to some old wells to improve production capacity and output, laying a solid foundation for the Company's long-term performance. With the steady increase in the number of upstream wells and gas output, the foundation of the Company's upstream business is increasingly consolidated and the advantage of the Group's vertical integration business will emerge. In recent years, the unfavorable bottleneck of raw gas shortage will gradually be tackled and the production capacity of our LNG plants will be fully unleashed. Together with the increase in the proportion of self-produced LNG, the Company will be gradually less affected by external factors and the uncontrollable risks involved in the operation of the Company will be lowered. It is projected that by the end of 2015, the daily output of natural gas exploration business will break through beyond 200,000 cubic meters. The current natural gas supply of China United has exceeded 200,000 cubic meters while the daily production output of LNG plants is expected to reach 450,000 cubic meters in 2015.

As there are growing concerns over the environmental issues, it is foreseen that the highly polluted energy will be eliminated from the market more rapidly and the use of replaceable clean energy will be more popular, resulting in a keener market demand for natural gas. Although the production capacity of natural gas has been increasing significantly in recent years, the projected demand will not be satisfied still. The demand growth of natural gas market will continue to retain its strong momentum. The situation of operating loss resulting from insufficient natural gas supply has improved significantly and is expected to further improve in the future. The management of the Company will fully seize the opportunities and diligently strive to contribute to the Company's profitability and long-term development.

MAJOR TRANSACTIONS AND EVENTS

Finance lease arrangement

On 28 January 2015, Shanxi Qinshui Shuntai Energy Development Company Limited (“Qinshui Energy”), a direct wholly-owned subsidiary of the Company entered into, among other things, the Finance Lease Agreement with CIMC Capital Limited (“CIMC”), pursuant to which (i) Qinshui Energy conditionally agreed to sell and CIMC conditionally agreed to purchase the certain liquefied natural gas equipments (“Equipments”) for a total consideration of RMB98,000,000 (approximately HK\$124,051,000); and (ii) Qinshui Energy conditionally agreed to lease from CIMC, and CIMC conditionally agreed to lease to Qinshui Energy, the Equipments for a total lease consideration of RMB114,836,400 (approximately HK\$145,363,000) for a term of 36 months by monthly installments inclusive of interest with a lump sum handling fee in the sum of RMB980,000 (approximately HK\$1,241,000). The lease consideration may be adjusted according to the floating lending interest rate to be promulgated by People’s Bank of China from time to time.

As the applicable percentage ratios of the Finance Lease Agreement exceed 25% but less than 100%, the Finance Lease Agreement constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Therefore, the Finance Lease Agreement is subject to the requirements of announcement and the approval of the shareholders by way of poll at the extraordinary general meeting of the Company. An extraordinary general meeting of the Company has been convened on 30 March 2015 and the finance lease arrangement was passed by ordinary resolution.

For details of the Finance Lease Arrangement, please refer to the announcement of the Company dated 28 January 2015 and 30 March 2015 and the circular of the Company dated 12 March 2015.

Retirement of Directorship

Mr. Shi Liang (“Mr. Shi”) retired by rotation at the Annual General Meeting 2014 (“AGM 2014”) in accordance with the Bye-laws. As the resolution was not passed at AGM 2014, Mr. Shi retired as an executive Director at the conclusion of the AGM 2014. For details of the retirement of directorship, please refer to the announcement of the Company dated 26 May 2015.

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

As at 30 September 2015, 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:

- 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).

- 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.
- 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 2015, 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 2015, 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 (<i>Note</i>)	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 2015, 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 5 February 2014	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 1 January 2015	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 30 September 2015	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
<i>Executive Directors</i>														
Mr. Wang Zhong Sheng	2,500,000	3,247,500	324,750	324,750	—	—	—	324,750	30/5/2011	30/5/2011-29/5/2021	0.495	0.495	0.381	3.81
Mr. Fu Shou Gang	2,500,000	3,247,500	324,750	324,750	—	—	—	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	—	—	—	649,500						
Employees	42,240,000	54,869,760	5,486,976	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	—	—	—	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	—	—	—	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 2015 (note iii and note iv)	3.81	32,119,074
Granted during the period	—	—
Outstanding as at 30 September 2015	3.81	32,119,074
Exercisable as at 30 September 2015	3.81	32,119,074

The options outstanding as at 30 September 2015 had an exercise price of HK\$3.81 and a weighted average remaining contractual life of 5.6 years.

As at the date of this Announcement, the total number of shares available for issue under the New Share Option Scheme was 32,119,074 ordinary shares, representing approximately 2.81% of the issued shares of the Company.

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

- (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

As at 30 September 2015, 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 2015, the Company had outstanding options to subscribe for 32,119,074 shares under the Share Option Scheme adopted on 18 May 2011. Details of the New Share Option Scheme are disclosed on pages 16 to 18 of 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.

SUBSEQUENT EVENT

Discloseable and connected transaction

On 12 October 2015 (after trading hours), Shanxi Yangcheng (a wholly owned subsidiary of the Company) as purchaser and Mr. Wang as vendor entered into the Agreement, pursuant to which Shanxi Yangcheng has conditionally agreed to purchase and Mr. Wang has conditionally agreed to dispose of 100% equity interest of Nuoxin (Xian County) Engineering Materials Company Limited, a company established in the PRC with limited liability and is wholly owned by Mr. Wang at a total consideration of RMB50,300,000 (equivalent to approximately HK\$61,396,180).

The total consideration of the acquisition shall be satisfied by Shanxi Yangcheng in the following manners:

- (i) as to RMB32,899,999.88 (equivalent to approximately HK\$40,157,739.85) by way of allotment and issue of 178,004,166 Consideration Shares, credited as fully paid, at an issue price of approximately HK\$0.2256 per Consideration Share to Mr. Wang at Completion; and
- (ii) as to RMB17,400,000.12 (equivalent to approximately HK\$21,238,440) by way of issue of the Convertible Bond in the principal amount of HK\$21,238,440 convertible up to 94,142,021 Conversion Shares upon the exercise of the Conversion Rights attached to the Convertible Bond at a conversion price of HK\$0.2256 per Conversion Share to Mr. Wang at Completion.

The Consideration Shares and the Conversion Shares will be allotted and issued under the Specific Mandate.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Company's consolidated financial statements.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares.

Since the relevant applicable percentage ratio calculated in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company and is therefore subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

As at the date of this announcement, Mr. Wang is the executive Director and he directly and indirectly holds approximately 18.97% of the entire issued share capital of the Company and therefore is a substantial Shareholder within the meaning of the GEM Listing Rules. As such, Mr. Wang is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Therefore, the Acquisition is subject to the requirements of announcement and the approval of the shareholders by way of poll at the extraordinary general meeting of the Company.

For details, please refer to the announcements of the Company dated 12 October 2015 and 2 November 2015.

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 2014 are set out below:

Name of Director	Details of changes
Mr. Shi Liang	Mr. Shi resigned as the executive Director with effect from 26 May 2015 due to the resolution was not passed at AGM 2014.

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 audit committee 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
Wang Zhong Sheng
Chairman

China, 13 November 2015

As at the date hereof, the executive Directors are Mr. Wang Zhong Sheng 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.