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**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)**

**INTERIM RESULTS ANNOUNCEMENT**  
**For the six months ended 30 June 2016**

**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 the 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 there are no other matters the omission of which would make any statement herein or this announcement misleading.*

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## FINANCIAL HIGHLIGHTS

- Turnover of the Company together with its subsidiaries (collectively the “Group”) for the quarter ended 30 June 2016 (the “Quarterly Period”) and the six months ended 30 June 2016 (the “Interim Period”) were approximately RMB64,971,000 and RMB122,592,000 respectively, representing a decrease of approximately 25.33% and 22.5% respectively compared with corresponding periods in the previous financial year.
- The Group recorded a loss attributable to owners of the Company of approximately RMB32,570,000 for the Interim Period.
- Loss per share of the Group was approximately RMB2.47 cents for the Interim Period.
- The board of Directors (the “Board”) does not recommend the payment of any dividend for the Interim Period.

## CONDENSED CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of the Group for the Quarterly Period and the Interim Period, together with the unaudited comparative figures for the corresponding periods in 2015, respectively were as follows:—

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

	Note	Quarterly ended 30 June		Half year ended 30 June	
		2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Turnover	3	64,971	87,014	122,592	158,192
Cost of sales		(71,114)	(94,696)	(124,829)	(148,724)
Gross (loss)/profit		(6,143)	(7,682)	(2,237)	9,468
Other revenue and net income	3	136	135	234	246
Distribution costs		(275)	(2,736)	(1,067)	(3,370)
Administrative and other operating expenses		(13,708)	(11,921)	(26,335)	(22,486)
Finance costs		(2,242)	(2,533)	(4,491)	(6,681)
Loss before income tax	4	(22,232)	(24,737)	(33,896)	(22,823)
Income tax (charge)/credit	5	(84)	141	95	640
Loss for the period		<u>(22,316)</u>	<u>(24,596)</u>	<u>(33,801)</u>	<u>(22,183)</u>
<b>Attributable to:</b>					
Owners of the Company		(21,857)	(20,298)	(32,570)	(17,154)
Non-controlling interests		(459)	(4,298)	(1,231)	(5,029)
<b>Loss for the period</b>		<u>(22,316)</u>	<u>(24,596)</u>	<u>(33,801)</u>	<u>(22,183)</u>
Dividends attributable to the period	6	—	—	—	—
		<u>RMB (cents)</u>	<u>RMB (cents)</u>	<u>RMB (cents)</u>	<u>RMB (cents)</u>
<b>Loss per share</b>					
— basic	7	<u>(1.66)</u>	<u>(1.78)</u>	<u>(2.47)</u>	<u>(1.50)</u>
— diluted		<u>(1.66)</u>	<u>(1.78)</u>	<u>(2.47)</u>	<u>(1.50)</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Quarterly ended 30 June		Half year ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Loss for the period</b>	<b>(22,316)</b>	(24,596)	<b>(33,801)</b>	(22,183)
<b>Other comprehensive income/(expense) for the period</b>				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of foreign entities	<u>416</u>	<u>(158)</u>	<u>351</u>	<u>(125)</u>
<b>Total comprehensive expense for the period</b>	<b>(21,900)</b>	(24,754)	<b>(33,450)</b>	(22,308)
<b>Total comprehensive expense attributable to:</b>				
Equity shareholders of the Company	<b>(21,441)</b>	(20,456)	<b>(32,219)</b>	(17,279)
Non-controlling interests	<b>(459)</b>	(4,298)	<b>(1,231)</b>	(5,029)
	<u><b>(21,900)</b></u>	<u>(24,754)</u>	<u><b>(33,450)</b></u>	<u>(22,308)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 <i>RMB'000</i> <i>(unaudited)</i>	31 December 2015 <i>RMB'000</i> <i>(audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment		789,632	800,681
Prepaid lease payments for land under operating leases		35,074	35,937
Deposits and prepayments		30,093	26,530
Deferred tax assets		58	58
		854,857	863,206
<b>Current assets</b>			
Prepaid lease payments for land under operating leases		863	863
Financial asset at fair value through profit or loss		200	200
Inventories		9,225	8,052
Trade and other receivables	9	96,283	111,772
Tax recoverable		3,995	2,000
Cash and cash equivalents		42,429	45,437
		152,995	168,324
<b>Current liabilities</b>			
Trade and other payables	10	398,911	364,754
Bank and other borrowings due within one year	11	42,080	43,080
Obligation under finance leases		29,145	31,985
Provision		6,115	6,612
Tax payable		1,919	3,462
		478,170	449,893

		<b>30 June</b>	31 December
		<b>2016</b>	2015
		<b>RMB'000</b>	RMB'000
	<i>Note</i>	<b>(unaudited)</b>	<b>(audited)</b>
<b>Net current liabilities</b>		<b>325,175</b>	(281,569)
<b>Total assets less current liabilities</b>		<b>529,682</b>	581,637
<b>Non-current liabilities</b>			
Obligation under finance leases		22,922	41,415
Convertible bonds		6,435	6,304
Deferred tax liabilities		13,371	13,514
		<b>42,728</b>	61,233
<b>Net assets</b>		<b>486,954</b>	520,404
<b>Capital and Reserves</b>			
Share capital	12	10,910	10,910
Reserves		490,004	522,223
Equity attributable to equity shareholders of the Company		<b>500,914</b>	533,133
Non-controlling interests		<b>(13,960)</b>	(12,729)
<b>Total equity</b>		<b>486,954</b>	520,404

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
CASH INFLOW FROM OPERATING ACTIVITIES	27,628	41,576
CASH OUTFLOW FROM INVESTING ACTIVITIES	(8,434)	(69,749)
CASH OUTFLOW/(INFLOW) FROM FINANCING ACTIVITIES	(22,202)	46,849
NET (DECREASE)/INCREASE IN CASH AND BANK BALANCES	(3,008)	18,676
CASH AND BANK BALANCES AT 1 JANUARY	45,437	43,930
CASH AND BANK BALANCES AT 30 JUNE	42,429	62,606

## 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	Convertible bonds 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>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2016	10,910	131,082	8,273	(5,528)	584,838	30,849	8,652	(235,943)	533,133	(12,729)	520,404
Loss for the period	—	—	—	—	—	—	—	(32,570)	(32,570)	(1,231)	(33,801)
Other comprehensive income for the period	—	—	—	351	—	—	—	—	351	—	351
Total comprehensive expense for the period	—	—	—	351	—	—	—	(32,570)	(32,219)	(1,231)	(33,450)
<b>Balance at 30 June 2016</b>	<b>10,910</b>	<b>131,082</b>	<b>8,273</b>	<b>(5,177)</b>	<b>584,838</b>	<b>30,849</b>	<b>8,652</b>	<b>(268,513)</b>	<b>500,914</b>	<b>(13,960)</b>	<b>486,954</b>

(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>	<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		—	—	—	—	—	—	(17,154)	(17,154)	(5,029)	(22,183)
Other comprehensive expense for the period		—	—	—	(125)	—	—	—	(125)	—	(125)
Total comprehensive expense for the period		—	—	—	(125)	—	—	(17,154)	(17,279)	(5,029)	(22,308)
<b>Balance at 30 June 2015</b>		<b>9,432</b>	<b>102,851</b>	<b>8,273</b>	<b>(7,646)</b>	<b>584,838</b>	<b>30,849</b>	<b>(17,154)</b>	<b>711,443</b>	<b>1,325</b>	<b>712,768</b>



*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 six months ended 30 June 2016 have not been audited by the Company’s auditors, 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 six months ended 30 June 2016 are consistent with those used in the Company’s annual financial statements for the year ended 31 December 2015.

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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

In the Interim Period, the Group has, where applicable, applied the new and revised HKFRSs issued by the HKICPA which are or have become effective.

The application of the new and revised HKFRSs in the current period had no material effect on the Group’s financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretation which are not yet effective for the period ended 30 June 2016 and which have not been adopted in these financial statements.

The Group is in the process of assessing the impact of these new and revised standards, amendments or interpretation is expected to be in the period of initial application but is not yet in a position to state whether those new and revised standards, amendments or interpretation would have a significant impact on the Group’s or the Company’s results of operations and financial position.

### 3. TURNOVER AND SEGMENT INFORMATION

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 logistics 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 Quarterly Period and the Interim Period, and the corresponding periods in 2015 is as follows:

	Quarterly ended 30 June		Half year ended 30 June	
	2016 <i>RMB'000</i> <i>(unaudited)</i>	2015 <i>RMB'000</i> <i>(unaudited)</i>	2016 <i>RMB'000</i> <i>(unaudited)</i>	2015 <i>RMB'000</i> <i>(unaudited)</i>
Turnover				
Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	64,410	86,152	120,501	155,284
Sales of piped natural gas and provision of gas supply connection services	561	862	2,091	2,908
	<u>64,971</u>	<u>87,014</u>	<u>122,592</u>	<u>158,192</u>
Other revenue and net income				
Interest income from bank deposits	20	30	45	59
Others	116	105	189	187
	<u>136</u>	<u>135</u>	<u>234</u>	<u>246</u>

The Group's turnover and assets were mainly derived from and related to the liquefied coalbed gas business in China while other segments were immaterial. Hence no geographical segment information is presented.

#### 4. LOSS BEFORE INCOME TAX

Loss before income tax was arrived at after charging:

	Quarterly ended 30 June		Half year ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Staff costs (including Directors' remuneration) — Salaries, wages, retirement benefit schemes contributions and other benefit	6,772	6,803	13,425	12,981
Depreciation of property, plant and equipment	19,954	15,702	38,569	31,881

#### 5. INCOME TAX

##### (a) Hong Kong profits tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period ended 30 June 2016 and 2015.

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 Interim 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 Quarterly Period and Interim Period.

## 6. DIVIDENDS

The Board does not recommend payment of any interim dividend for the Interim Period (six-month ended 30 June 2015: Nil).

## 7. LOSS PER SHARE

The calculation of basic and diluted loss per share for the Quarterly Period and Interim Period were based on the respective unaudited data as follows:

	Quarterly ended 30 June		Half year ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Loss attributable				
to owners of the Company	<b><u>(21,857)</u></b>	<b><u>(20,298)</u></b>	<b><u>(32,570)</u></b>	<b><u>(17,154)</u></b>
	<b>Shares</b>	<b>Shares</b>	<b>Shares</b>	<b>Shares</b>
	<b><i>('000)</i></b>	<b><i>('000)</i></b>	<b><i>('000)</i></b>	<b><i>('000)</i></b>
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	<b><u>1,319,484</u></b>	<b><u>1,141,480</u></b>	<b><u>1,319,484</u></b>	<b><u>1,141,480</u></b>

No dilutive loss per share was presented because there were no dilutive potential ordinary share in existence during the quarters and six months ended 30 June 2016 and 30 June 2015 respectively.

## 8. ADDITIONS AND DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT

During the Interim Period, the Group have acquired approximately RMB27,520,000 (six months ended 30 June 2015: approximately RMB8,062,000) property, plant and equipment. There was no material disposal in the Interim Period (six months ended 30 June 2015: Nil).

## 9. TRADE AND OTHER RECEIVABLES

The Group's trade receivables relate to sales of goods to third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

The Group's trade and other receivables are as follows:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Trade and bills receivables	11,595	9,206
Amounts due from related companies	9,700	7,261
Advances to suppliers	4,258	4,081
Prepayments and other receivables	69,566	87,072
Other tax recoverable	1,164	4,152
	<u>96,283</u>	<u>111,772</u>

The ageing analysis of the trade and bills receivables based on invoice date is as follows:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Within 1 month	8,162	5,500
More than 1 month but less than 3 months	1,508	1,602
More than 3 months but less than 6 months	667	995
More than 6 months but less than 12 months	465	587
More than 12 months	793	522
	<u>11,595</u>	<u>9,206</u>

## 10. TRADE AND OTHER PAYABLES

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Trade payables	158,899	130,059
Amount due to a non-controlling shareholder of a subsidiary ( <i>note (a)</i> )	1,569	7,497
Accrued expenses and other payables	209,157	206,108
Deposits received from customers	23,387	16,937
Other taxes payables	5,899	4,153
	<u>398,911</u>	<u>364,754</u>

The ageing analysis of the trade payables based on invoice date is as follows:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Within 1 month	7,952	4,002
More than 1 month but less than 3 months	15,863	244
More than 3 months but less than 6 months	10,816	59,291
More than 6 months but less than 12 months	88,251	65,985
More than 12 months	36,017	537
	<u>158,899</u>	<u>130,059</u>

*Note:*

- (a) The amounts are unsecured, interest-free and repayable on demand.

## 11. BANK AND OTHER BORROWINGS

As at 30 June 2016, the bank and other loans were repayable as follows:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Unsecured other loans repayable:		
Within 1 year or on demand	<b>42,080</b>	43,080

Notes:

- (a) Unsecured other loans of RMB42,080,000 (2015: RMB43,080,000) represent loans due to non-controlling shareholders of PRC subsidiaries of the Group. The loans bear interest at fixed rates ranging from 7.12% to 11.50% (2015: 7.12% to 11.50%) per annum.

## 12. SHARE CAPITAL

	<b>30 June 2016 (unaudited)</b>		31 December 2015 (audited)	
	<b>Number of shares '000</b>	<b>Total nominal value RMB'000</b>	Number of shares '000	Total nominal value RMB'000
Authorised	<b>20,000,000</b>	<b>174,064</b>	20,000,000	174,064
Issued and fully paid				
At 1 January ordinary shares of HK\$0.01 each	—	—	1,141,480	9,432
Issue of consideration shares	—	—	178,004	1,478
At 30 June/ 31 December	<b>1,319,484</b>	<b>10,910</b>	1,319,484	10,910

### Issue of ordinary shares

Year ended 31 December 2015

- On 12 December 2015, the Company issued 178,004,166 ordinary shares of HK0.01 each to Mr. Wang as part of the consideration for the Nuoxin Engineering Acquisition during the year.

## Share option scheme

Pursuant to an ordinary resolution passed on 18 May 2011, the Company adopted a share option scheme (the “Scheme”) for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are available to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The Scheme will remain in force for a period of 10 years from adoption of the 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 Scheme.

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.

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.

The options outstanding at 30 June 2016 had an exercise price of HK\$3.81 and a weighted average remaining contractual life of 5 years. The exercise periods for the above options granted under the Scheme shall end not later than 10 years from 30 May 2011.



### 13. COMMITMENTS

- (a) At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases in respect of office premises are payable as follows:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Within 1 year	<b>305</b>	540
After 1 year but within 5 years	—	85
	<b>305</b>	625

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease with all terms renegotiable. None of the leases includes contingent rentals.

- (b) At 30 June 2016, the Group had the following capital commitments:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment and in respect of construction in progress: — contracted but not provided for in the financial statements	<b>134,661</b>	143,000

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

The Group recorded a consolidated turnover of approximately RMB122,592,000 for the Interim Period, representing an decrease of approximately 22.5% compared with the corresponding period of last year. The sales quantity was at roughly the same level in the Quarter compared with the corresponding period last year. However, the sales unit price was decreased in the Interim period, and it leads to the gross loss of RMB2,237,000 for the Interim Period.

Loss attributable to equity shareholders of the Company for the Interim Period was approximately RMB32,570,000, compared with the loss attributable to equity shareholders of approximately RMB17,154,000 for the previous period. The reasons for the loss are as follows:

- (i) A turnover has a significant decreased by RMB35,600,000 or 22.5% and recorded a gross loss during the Interim Period, as a result of the decrease in the sales unit price in the Interim Period.
- (ii) The finance costs decreased by RMB2,190,000 as a result of the decrease in the bank and other borrowings during the Interim Period.
- (iii) Income tax credit for approximately RMB95,000 mainly due to the recognition of deferred tax liabilities in relation to the withholding tax provision for the Quarter.

### **BUSINESS REVIEW AND DEVELOPMENT PROSPECTS**

#### **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<sup>2</sup> 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 subsidiaries of the Group.

The movements in the reserves of certain CBM properties as of 30 June 2016 are set out below:

	<b>Reserve evaluation of the CBM properties as at 30 June 2016 BCF</b>	<b>Reserve evaluation of the CBM properties as at 31 March 2012 BCF</b>
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.

### **Natural gas exploration and extraction**

As at 30 June 2016, the Group has completed the ground work and drilling of 274 CBM wells, among which 224 wells were in production, representing an increase of 1 well compared with the number of wells at the end of 2015. 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 2016, the number of total drills and wells in production will reach 280 and 248 respectively and the total gas output will exceed 200,000 cubic meters per day.

### **Liquefaction operation**

As at 30 June 2016, 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 June 2016, 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 2016, 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 June 2016, the Group had net assets of approximately RMB486,954,000, including cash and bank balances of approximately RMB42,429,000. 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 18.8%.

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 June 2016, the Group has an aggregate of 543 employees, of which 90 are research and development staff, 226 are engineering and customer service staff, 202 administrative staff and 25 marketing staff. During the Interim period, the staff cost (including Directors' remuneration) was approximately RMB13,425,000 (six months ended 30 June 2015: approximately RMB12,981,000). 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 Interim 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 2016, 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 2016.

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

### **Open offer, proposed change in board lot size and connected transaction: set-off of the convertible bonds**

On 7 January 2016, the Company proposes to raise approximately not less than HK\$119.41 million and not more than HK\$122.74 million (before expenses and after taking into account of the Set-off Arrangement), by way of Open Offer of not less than 3,958,453,602 Offer Shares and not more than 4,053,836,574 Offer Shares at the Subscription Price of HK\$0.035 per Offer Share on the basis of three (3) Offer Shares for every one (1) existing Share held on the Record Date and payable in full on application.

The Board also proposes that the board lot for trading on the Stock Exchange would be changed from 10,000 Shares to 40,000 Shares with effect from 9:00 a.m. on Thursday, 28 January 2016.

As at 7 January 2016, Mr. Wang is the holder of the Convertible Bonds. Pursuant to the Wang's Undertaking, Mr. Wang and the Company have agreed that the Subscription Price required to be paid by Mr. Wang for his subscription in respect of the 1,182,719,949 Offer Shares under the Mr. Wang's Undertaking would be settled by way of: (i) HK\$19.14 million by the Set-off Arrangement against the Convertible Bonds; and (ii) the remaining balance of approximately HK\$22.26 million in cash.

Pursuant to Rule 10.39 of the GEM Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer. As at the date of this announcement, as there are no controlling Shareholders, only the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will be required to abstain from voting in favour of the resolutions relating to the Open Offer at the Special General Meeting ("SGM").

As at 7 January 2016, Mr. Wang, the Chairman and an executive Director, together with his associates are holding an aggregate of 394,239,983 Shares, representing approximately 29.88% of the issued share capital of the Company. Save as disclosed above, no other Directors (excluding the independent non-executive Directors), the chief executive of the Company and their associates hold any Shares as at 7 January 2016. Accordingly, Mr. Wang is a connected person of the Company. The Set-off Arrangement as contemplated under the Underwriting Agreement therefore constitutes connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules. The Set-off Arrangement would be subject to the reporting and announcement requirements and the approval of the Independent Shareholders at the SGM under the GEM Listing Rules.

As Mr. Wang is deemed to have a material interest in the Set-off Arrangement, Mr. Wang and his associates shall abstain from voting at the SGM on the resolutions in relation to the Set-off Arrangement.

**Proposed share consolidation, change in board lot size, revised expected timetable of the open offer and entering into the supplemental underwriting agreement**

On 15 March 2016, the Board proposes to implement the Share Consolidation on the basis that every ten (10) Shares of HK\$0.01 each in the issued and unissued share capital of the Company be consolidated into one (1) New Share of HK\$0.10 each in the issued and unissued share capital of the Company.

As at 15 March 2016, there are 1,319,484,534 Shares of HK\$0.01 each in issue and fully paid or credited as fully paid. Assuming no Shares will be issued or repurchased from 15 March 2016 up to the date of the SGM, there will be approximately 131,948,453 New Shares of HK\$0.10 each in issue and fully paid or credited as fully paid following the Share Consolidation becoming effective.

The Share Consolidation was conditional upon, among other things, the approval of Shareholders at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder were required to abstain from voting in approving the Share Consolidation at the SGM.

As at 15 March 2016, the Shares are currently trade in board lot size of 40,000 Shares. The Board also proposed that, upon the Share Consolidation becoming effective, the board lot size of the New Shares for trading on the Stock Exchange will be changed to 8,000 New Shares.

Based on the closing price of HK\$0.07 per Share (equivalent to HK\$0.70 per New Share) as quoted on the Stock Exchange as at the last trading day immediately before 15 March 2016, the board lot value is HK\$2,800 in the current board lot size of 40,000 Shares, and HK\$5,600 in the proposed new board lot size of 8,000 New Shares.

In light of the revised expected timetable for the Open Offer and the Share Consolidation, after arm's length negotiations between the Company and the Underwriter, the Company and the Underwriter have on 15 March 2016 (after trading hours) entered into the Supplemental Underwriting Agreement to reflect the change in the revised expected timetable for the Open Offer and to take into consideration of the Share Consolidation. The proposed Share Consolidation, Open Offer and connected transaction: set-off of the convertible bonds were not approved by the Shareholders or Independent Shareholder by way of ordinary resolution at the SGM of the Company held on 18 April 2016.



For details of proposed Share Consolidation, change in board lot size, revised expected timetable of the Open Offer and entering into the Supplemental Underwriting Agreement and results of the SGM, please refer to the announcement of the Company dated 15 March 2016, 22 March 2016, 24 March 2016 and 18 April 2016, and the circular of the Company dated 29 March 2016.

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

As at 30 June 2016, 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**

<b>Name</b>	<b>Capacity</b>	<b>Nature of Interest</b>	<b>Number of ordinary shares/ underlying shares</b>	<b>Approximate % of shareholdings</b>
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 <i>(Note 1)</i>	1.38%
	Beneficial owner	Personal	470,588,254 <i>(Note 2)</i>	35.66%
Mr. Fu Shou Gang	Beneficial Owner	Personal	324,750 <i>(Note 3)</i>	0.02%

*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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

2. Out of the 470,588,254 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 324,750 shares under the share option scheme adopted by the Company on 18 May 2011; (ii) a beneficial owner of 376,121,483 issued shares of the Company; and (iii) a holder of convertible bonds convertible to 94,142,021 conversion shares.
3. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 324,750 shares under the share option scheme adopted by the Company on 18 May 2011.

Save as disclosed above, as at 30 June 2016, 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 Interim Period.

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

As at 30 June 2016, 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**

<b>Name</b>	<b>Number of Shares</b>	<b>Nature of Interest</b>	<b>Approximate percentage of shareholding</b>
Ms. Zhao Xin ( <i>Note</i> )	488,706,754	Interest of spouse	37.04%

*Notes:*

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 June 2016, no other person (other than the Directors or chief executive of the Company) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

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

Name and category of participants	As at 1 January 2016	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	As at 30 June 2016	Date of grant of share options	Exercise period of share options	Exercise price of per share of grant of share options	Adjusted exercise price per share option
<i>Executive Directors</i>									
Mr. Wang Zhong Sheng	324,750	—	—	—	324,750	30/5/2011	30/5/2011-29/5/2021	0.495	3.81
Mr. Fu Shou Gang	324,750	—	—	—	324,750	30/5/2011	30/5/2011-29/5/2021	0.495	3.81
	<u>649,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>649,500</u>				
Employees	5,486,976	—	—	—	5,486,976	30/5/2011	30/5/2011-29/5/2021	0.495	3.81
Consultants	25,982,598	—	—	—	25,982,598	30/5/2011	30/5/2011-29/5/2021	0.495	3.81
	<u>32,119,074</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>32,119,074</u>				

Notes:

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

	<b>Number of options</b>	<b>Vesting conditions</b>	<b>Remaining Contractual life of options</b>
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:

	<b>Weighted average exercise price HK\$</b>	<b>Number of options</b>
Outstanding as at 1 January 2016	3.81	32,119,074
Granted during the period	—	—
Outstanding as at 30 June 2016	3.81	32,119,074
Exercisable as at 30 June 2016	3.81	32,119,074

The options outstanding as at 30 June 2016 had an exercise price of HK\$3.81 and a weighted average remaining contractual life of 5 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 2.43% 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.

## **CONTINGENT LIABILITIES**

As at 30 June 2016, 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 Interim Period.

## **CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS**

As at 30 June 2016, the Company had outstanding convertible bonds convertible to 94,145,021 conversion shares and 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 pages 28 to 29 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 Interim 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.

## **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 of the audit committee).

During the Interim Period, the audit committee has held two meeting. The Group's unaudited consolidated results for the Interim 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 Interim Period, save as disclosed below, the Group has complied with the code provisions in the Corporate Governance Code and the Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules ("HKSE Code").

Under code provision A.4.1 of the HKSE Code, non-executive directors should be appointed for specific terms, subject to re-election, Currently, the independent non-executive Directors have no set term of office but are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's 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 HKSE 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 the code provision A.2.1 of the HKSE 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 the code provision A.2.1 of the HKSE 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 specified enquiry of all Directors, the Company was not aware of any non-compliance with such code of conduct during the Interim 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, 10 August 2016

*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.*