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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
For the three months ended 31 March 2017

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of China CBM Group Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication.

FINANCIAL HIGHLIGHTS

- Turnover of the Company together with its subsidiaries (collectively, the "Group") for the three months ended 31 March 2017 was approximately RMB34,507,000, representing an a decrease of 40.11% as compared with corresponding period in the previous financial year.

- The Group realised a loss of approximately RMB14,685,000 for the three months ended 31 March 2017.

- Basic loss per share attributable to equity shareholders of the Company was approximately RMB1.07 cent for the three months ended 31 March 2017.

- The board of Directors (the "Board") does not recommend the payment of any dividend for the three months ended 31 March 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The unaudited condensed consolidated results of the Group for the three months ended 31 March 2017 (the "Quarter") together with the unaudited comparative figures for the corresponding period in 2016, respectively were as follows:

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

		Three months ended 31 March	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Turnover	2	**34,507**	57,621
Cost of sales		**(34,665)**	(53,715)
Gross loss/profit		**(158)**	3,906
Other revenue and net income	2	**313**	98
Distribution costs		**(745)**	(792)
Administrative expenses		**(12,207)**	(12,141)
Other operating expenses		**(1)**	(486)
Finance costs		**(2,069)**	(2,249)
Loss before income tax		**(14,867)**	(11,664)
Income tax credit	3	**182**	179
Loss for the period		**(14,685)**	(11,485)
Attributable to:			
Equity shareholders of the Company		**(14,100)**	(10,713)
Non-controlling interests		**(585)**	(772)
Loss for the period		**(14,685)**	(11,485)
Dividends attributable to the period	4	**–**	–
		RMB (cents)	*RMB (cents)*
Loss per share	5		
– basic		**(1.07)**	(0.81)
– diluted		**(1.07)**	(0.81)

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Three months ended 31 March	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss for the period	**(14,685)**	(11,485)
Other comprehensive income/(expense) for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign entities	**610**	(65)
Total comprehensive expense for the period	**(14,075)**	(11,550)
Total comprehensive expense attributable to:		
Equity shareholders of the Company	**(13,490)**	(10,778)
Non-controlling interests	**(585)**	(772)
	(14,075)	(11,550)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company										
(unaudited)	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**General reserve** *RMB'000*	**Translation reserve** *RMB'000*	**Contributed surplus** *RMB'000*	**Share option reserve** *RMB'000*	**Convertible bonds reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2017	**10,910**	**131,082**	**8,273**	**(5,412)**	**584,838**	**30,849**	**8,652**	**(336,945)**	**432,247**	**(14,111)**	**418,136**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,100)**	**(14,100)**	**(585)**	**(14,685)**
Other comprehensive income for the period	**–**	**–**	**–**	**610**	**–**	**–**	**–**	**–**	**610**	**–**	**610**
Total comprehensive income/(expense) for the period	**–**	**–**	**–**	**610**	**–**	**–**	**–**	**(14,100)**	**(13,490)**	**(585)**	**(14,075)**
Balance at 31 March 2017	**10,910**	**131,082**	**8,273**	**(4,802)**	**584,838**	**30,849**	**8,652**	**(351,045)**	**418,757**	**(14,696)**	**404,061**

	Attributable to equity shareholders of the Company										
(unaudited)	Share capital *RMB'000*	Share premium *RMB'000*	General reserve *RMB'000*	Translation reserve *RMB'000*	Contributed surplus *RMB'000*	Share option reserve *RMB'000*	Convertible bonds reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 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	–	–	–	–	–	–	–	(10,713)	(10,713)	(772)	(11,485)
Other comprehensive expense for the period	–	–	–	(65)	–	–	–	–	(65)	–	(65)
Total comprehensive expense for the period	–	–	–	(65)	–	–	–	(10,713)	(10,778)	(772)	(11,550)
Balance at 31 March 2016	10,910	131,082	8,273	(5,593)	584,838	30,849	8,652	(246,656)	522,355	(13,501)	508,854

NOTES:

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

The unaudited consolidated results for the Quarter have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee. The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results for the Quarter are consistent with those used in the Company's annual financial statements for the year ended 31 December 2016.

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

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

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

2. TURNOVER, OTHER REVENUE AND NET INCOME

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

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

The amount of each significant category of revenue recognised in turnover during the Quarter is as follows:

	Three months ended 31 March	
	2017	2016
	RMB'000	*RMB'000*
Turnover		
Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	**8,030**	56,091
Sales of piped natural gas and provision of gas supply connection services	**26,477**	1,530
	34,507	57,621
Other revenue and net income		
Interest income from bank deposits	**11**	25
Other net income	**302**	73
	313	98

3. INCOME TAX

(a) Hong Kong profits tax

Hong Kong Profit Tax is calculated at 16.5% of the estimated assessable profits for the period ended 31 March 2017 and 2016.

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

(b) Overseas income tax

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

There was no significant unprovided deferred taxation for the Quarter.

4. DIVIDENDS

The Board does not recommend the payment of any dividend for the Quarter (corresponding period in 2016: Nil).

5. LOSS PER SHARE

The calculation of basic and diluted loss per share for the Quarter were based on the unaudited loss attributable to shareholders for the Quarter of approximately RMB14,100,000 (corresponding period in 2016: loss of approximately RMB10,713,000), and the weighted average number of 1,319,484,534 (corresponding period in 2016: 1,319,484,534) shares in issue of the Company. The weighted average number of shares in issue was calculated based on the number of shares in issue or deemed to be in issue before placing but after corresponding adjustments by the Company upon capitalisation of share premium.

Diluted loss per share

Diluted loss per share attributable to equity shareholders of the Company for the Quarter 2017 and 2016 is the same as the basic loss per share as the effect of dilutive potential ordinary shares from share options is anti-dilutive.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a consolidated turnover of approximately RMB34,507,000 for the Quarter, representing an decrease of approximately 40.11% compared with the corresponding period of last year. The Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai since February 2017, and it leads to the decrease in turnover of the Group during the Quarter.

Loss attributable to equity shareholders of the Company for the Quarter was approximately RMB14,100,000, compared with the loss attributable to equity shareholders of approximately RMB10,713,000 for the previous period. The reasons for the loss are as follows:

(i) The Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai since February 2017, and it leads to the decrease in turnover of the Group during the Quarter.

(ii) The finance costs decreased by RMB180,000 as a result of the decrease in the bank and other borrowings during the Quarter.

(iii) Income tax credit for approximately RMB182,000 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^2 in the Shanxi Province, the PRC. Development within the Yangcheng gas block is focused on the #3 and #15 coal seams. These CBM properties are located at various coal mine areas owned by Shanxi Yangcheng Yangtai Group Industrial Company Limited. Huiyang New Energy is a joint venture company and 60% of its equity interests is held by one of the wholly-owned subsidiaries of the Group.

The movements in the reserves of certain CBM properties as of 31 March 2017 are set out below:

	Reserve evaluation of the CBM properties as at 31 March 2017 *BCF*	**Reserve evaluation of the CBM properties as at 31 March 2012** *BCF*
Total original gas in place on all blocks	2,724	2,724
Net 1P (Proved) reserves	1,419	35
Net 2P (Proved + Probable) reserves	1,869	277
Net 3P (Proved + Probable + Possible) reserves	2,282	2,050

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

Due to continued development of the gas field blocks by the Company, the number and scope of the gas production wells are relatively increased as compared with that of 2012, enabling the Company to collect more data about the CBM properties to evaluate the CBM properties more accurately. Accordingly, the Company engaged an independent professional valuer in the PRC in July 2014 to evaluate certain CBM properties of "Huiyang New Energy" in terms of net 3P (Proved + Probable + Possible) reserves, net 2P (Proved + Probable) reserves and net 1P (Proved) reserves based on substantially the same definitions and guidelines as that of NSAI in 2012. According to the results of the evaluation, the total original gas in place on all blocks was generally unchanged as compared with that of NSAI in 2012. Based on the current costs for developing wells, the technical department of the Group estimates the capital expenditure for each well to be approximately RMB1.4 million, mainly comprising of road maintenance fees of approximately RMB0.09 million, drilling expenses of approximately RMB0.86 million, well testing fees of approximately RMB0.04 million and costs of equipment and materials of approximately RMB0.41 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 31 March 2017, the Group has completed the ground work and drilling of 274 CBM wells, among which 225 wells were in production, representing no change in number of well compared with the number of wells at the end of 2016. 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 2017, the number of total drills and wells in production will reach 288 and 264 respectively and the total gas output will exceed 200,000 cubic meters per day. The Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai Liquefying Plant since February 2017, therefore, the gas from the CBM well will be delivered to the ultimate customer by pipeline.

Liquefaction operation

Since February 2017, the Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai, with an aim to lower the subsequent production cost of R&D on the Group's new project, liquefied A-class air. During the quarter, the trial production of liquefied A-class air has commenced by making use of our existing liquefied natural gas equipping with some necessary transformation and process adjustment. It is anticipated that such R&D will yield results in 2017.

Marketing and sales

During the Quarter, marketing and sales, employee structure and sales strategy remained basically the same. The marketing and sales operation is mainly focused on the development of the Group's new business, i.e. liquefied A-class air. Despite the suspension of production of liquefied natural gas by the liquefied natural gas plant, the Group's coalbed methane will be delivered directly to the end user by pipeline, and in line with the expected increase in gas output volume of CBM wells, marketing personnel of the Group will strive for the expansion of customer base to include more customers with higher profit margin potential, so as to ensure the sales of piped natural gas will continue to contribute to the Group's profitability.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2017, the Group had net assets of approximately RMB404,061,000, including cash and bank balances of approximately RMB13,689,000. To minimise financial risks, the Group implements stringent financial and risk management strategies and avoids the use of highly-geared financing arrangements. The Group's gearing ratio, calculated by the Group's total external borrowings divided by its shareholders' fund, was approximately 22.53%.

The Group is opportunistic in obtaining financing to further improve the cash position given that the natural gas drilling program is capital intensive. If the Group has adequate financing in the future (whether it is from internal cash flow due to increased gas sales, or from fund raising), the Group will accelerate the drilling program. Apart from the intended investment in upstream CBM exploration and extraction, the Group does not have any other plan for acquisition or investment, disposal or scaling-down of any current business.

Employees

As at 31 March 2017, the Group has an aggregate of 533 employees, of which 96 are research and development staff, 264 are engineering and customer service staff, 135 administrative staff and 38 marketing staff. During the Quarter, the staff cost (including Directors' remuneration) was approximately RMB6,067,000 (For the three months ended 31 March 2016: approximately RMB6,653,000). The salary and bonus policy of the Group is principally determined by the performance of the individual employee. The Group will, on an ongoing basis, provides opportunity for professional development and training to its employees.

Risk in Foreign Exchange

The group entities collect most of the revenue and incur most of expenditures in their respective functional currencies. The Directors consider that the Group's exposure to foreign currency exchange is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity.

Outlook

The 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 vertical integration business will emerge. In recent years, the unfavorable bottleneck of raw gas shortage will gradually be tackled and the production capacity of liquefaction plants will be fully unleashed. Together with the increase in the proportion of self-produced gas, the Company will be gradually less affected by external factors and the uncontrollable risks involved in the operation of the Company will become less. It is projected that by the end of 2017, the daily output of gas exploration business will break through beyond 200,000 cubic meters.

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. However, the drop in selling prices of natural gas has resulted in operating losses. Management of the Company will spare no effort in overcoming difficulties and be devoted to making contribution to the Company's profit margin and long-term development.

In addition, against a backdrop of air pollution in Mainland China that cannot be effectively improved in the short run, the public, especially residents in Northeast China where the pollution is relatively more severe, have an increasingly strong demand for fresh air. In response to such market demand, the Group has conducted the R&D on liquefied A-class air technology since the beginning of 2016. Liquefied A-class air refers to air undergone multiply filtration, liquefied and pumped into various sealed bottles. It is released slowly when used to provide A-class fresh air that sustains normal respiration by users. This product possesses advantages over ordinary air purifying devices as it is of low cost, easy to carry and subjected to no conditions of usage, such that it can be widely applied in household vehicles, family lives, and business or office venues. As an extremely desirable new product, the production of which is expected to bring about consideration cost-effectiveness for the Group. In respect of household vehicles, the Group's target cities are Beijing, Tianjin, Zhengzhou and Shijiazhuang, and the total number of vehicles in such places amounts to approximately 7.5 million. Based on the estimated production capacity of 山西沁水順泰液化工廠 (Shanxi Qinshui Shuntai Liquefying Plant), the Group will only be able to meet 1.9% demand of the targeted cities. As such, the Group believes that the liquefied A-class air business has a huge development potential. Currently, the R&D on liquefied A-class air has entered the stage of transformation and calibration for liquefying equipment and optimized molding for liquefied air bottles. In order to expedite R&D of this new product that may kickoff a new business for the Group, the Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai since February 2017 with an aim to lower the subsequent production cost of R&D on liquefied A-class air. Trial production of liquefied A-class air has commenced by making use of our existing liquefied natural gas equipping with some necessary transformation and process adjustment. It is anticipated that such R&D will yield results in 2017.

Despite that the Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai since February 2017, the Group is fully confident in the prospect of the natural gas market in China. In 2017, the Group is intending to transport natural gas from gas blocks directly to industrial users through pipelines, so as to secure profit contribution from the natural gas business.

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

As at 31 March 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Name	Capacity	Nature of interest	Number of shares/ underlying shares	Approximate % of shareholdings
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 *(Note 1)*	1.38%
	Beneficial owner	Personal	470,588,254 *(Note 2)*	35.66%
Mr. Fu Shou Gang	Beneficial owner	Personal	324,750 *(Note 3)*	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 SFO (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 new 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 new share option scheme adopted by the Company on 18 May 2011.

Save as disclosed above, as at 31 March 2017, none of the Directors or chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. The Group had not issued any debentures during the Quarter.

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

As at 31 March 2017, the following persons (other than the Directors or chief executive of the Company as disclosed above) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in shares/underlying shares

Name	Number of shares/ underlying shares	Nature of Interest	Percentage of shareholding
Ms. Zhao Xin *(Note)*	488,706,754	Interest of spouse	37.04%

Note:

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

Save as disclosed above, as at 31 March 2017, no other person (other than the Directors or chief executive of the Company) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

Apart from as disclosed under the heading "Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, at no time during the Quarter were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children or chief executive or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 18 May 2011, the Company's share option scheme adopted on 28 July 2003 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted which will remain in force for a period of 10 years from adoption of the New Share Option Scheme and will expire on 17 May 2021. On 30 May 2011, the Board approved to grant options in respect of 258,300,000 ordinary shares to the Company's Directors, employees and consultants under the New Share Option Scheme.

There were no share options that had been granted remained outstanding under the Old Share Option Scheme prior to its termination.

For details of the New Share Option Scheme, please refer to the circular of the Company dated 20 April 2011.

Information in relation to share options disclosed in accordance with the GEM Listing Rules was as follows:

Name and category of participants	As at 1 January 2017	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 31 March 2017	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	Adjusted exercise price per share option
Executive Directors									
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
	649,500	–	–	–	649,500				
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
	32,119,074	–	–	–	32,119,074				

Notes:

(i) The terms and conditions of the grants that existed during the Quarter 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 2017	3.81	32,119,074
Granted during the period	–	–
Outstanding as at 31 March 2017	3.81	32,119,074
Exercisable as at 31 March 2017	3.81	32,119,074

The options outstanding as at 31 March 2017 had an exercise price of HK$3.81 and a weighted average remaining contractual life of 4.1 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.

AMOUNT OF CAPITALISED INTEREST

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

CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS

As at 31 March 2017, the Company had outstanding convertible bonds convertible to 94,142,021 conversion shares and outstanding options to subscribe for 32,119,074 shares under the New Share Option Scheme. Details of the New Share Option Scheme are disclosed in page 16 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 Quarter, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

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

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

During the Quarter, the Audit Committee has held one meeting. The Group's unaudited consolidated results for the Quarter have been reviewed and commented by the Audit Committee's members.

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

CORPORATE GOVERNANCE

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

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Currently, the independent non-executive Directors have no specific term of office but are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's constitutional document. The Board considers the current arrangement will allow flexibility to the Board in terms of appointment of Directors.

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

The Company has received from each of the independent non-executive Directors a confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of its independent non-executive Directors are independent.

By order of the Board
Wang Zhong Sheng
Chairman

11 May 2017

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 and Ms. Pang Yuk Fong and Mr. Wang Zhi He.