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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: 8270)

MAJOR TRANSACTION: DISPOSAL OF ENTIRE EQUITY INTERESTS IN A PRC SUBSIDIARY

On 2 December 2021 (after trading hours), the Vendors entered into the conditional Sale and Purchase Agreement with the Purchaser pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the Sale Capital for a cash consideration of RMB80,000,000 (subject to adjustment). Upon Completion, the Group will cease to hold any interests in the Target Company.

As more than one of the applicable percentage ratio(s) exceed 25% but less than 75%, the Disposal constitute a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules and shall be subject to Shareholders' approval at the SGM. A circular containing, among other matters, further details of the Disposal and a notice to convene the SGM will be despatched to the Shareholders in compliance with the GEM Listing Rules.

THE DISPOSAL

On 2 December 2021 (after trading hours), the Vendors entered into the conditional Sale and Purchase Agreement with the Purchaser pursuant to which the Vendors agreed to sell and the Purchaser agreed to acquire the Sale Capital for an aggregate consideration of RMB80,000,000 subject to and conditional upon the terms of the Sale and Purchase Agreement.

Sale and Purchase Agreement

Date: 2 December 2021 (after trading hours)

Parties: (1) Vendors : 廣西聯富商務服務有限公司 (Guangxi Lianfu Business Service Co., Ltd.) (as Vendor A); and
孫桂蘭 (Sun Guilan#) (as Vendor B)
(2) Purchaser : 廣西銅州控股有限公司 (Guangxi Tongzhou Holding Co., Ltd.#)

Vendor A is a limited liability company established in PRC and a wholly-owned subsidiary of the Company which is principally engaged in investment holding whereas Vendor B is a PRC citizen and merchant. To the best of the Directors' knowledge, information and belief, Vendor B is an Independent Third Party.

The Purchaser is a company established in the PRC with limited liability and a first-tier subsidiary company of the subsidiary controlled by the Beiliu City Finance Bureau, which is the financial authority of the Beiliu City People's Government of the PRC. The Purchaser is principally engaged in oil and natural gas pipeline storage and transportation, power generation, transmission and supply business, sales of refined oil products, catering services, food business, sales of Class I medical devices, sales of lubricating oil, retail of automobile components and parts, sales of daily commodities, car washing services, production, sales, processing, transportation, storage of agricultural products and other related services, leasing of machinery and equipment, leasing of non-residential real-estate, smart power transmission and distribution and sales of control equipment. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Assets to be disposed

Before Completion, the Target Company has a registered capital of RMB30,000,000 which is owned as to 97.5% by Vendor A and as to 2.5% by Vendor B, respectively.

Pursuant to the Sale and Purchase Agreement, the Vendors have agreed to dispose and the Purchaser has agreed to acquire the Sale Capital, representing 100% equity interest in the Target Company subject to and conditional upon the terms and conditions of the Sale and Purchase Agreement.

Consideration

The consideration for the Disposal is RMB80,000,000, which shall be payable by the Purchaser in two tranches payable in the following manner:

- (i) as to RMB24,000,000 shall be paid by the Purchaser to the Vendors within 30 days from the date of the Sale and Purchase Agreement; and
- (ii) as to RMB56,000,000 shall be paid by the Purchaser to the Vendors within three days in an escrow bank account after the date on which the Disposal having been approved by the Shareholders at the SGM, which shall be released to the Vendors upon registration of transfer of the Sale Capital with the relevant PRC authority.

Any loss incurred by the Target Company from 30 April 2021 to the date of Completion shall be deducted from the consideration of the Disposal. Liabilities of the Target Company not shown in its accounts shall be borne by the Vendors.

The consideration for the Disposal was determined with reference to, among others, the net asset value of the Target Company and arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement. The Directors (including the independent non-executive Directors) consider the terms of the Sale and Purchase Agreement (including but not limited to the consideration) to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon satisfaction of the following conditions:

- (a) the Disposal having been approved by the Shareholders at the SGM and the Purchaser having obtained all necessary authorisations and approvals of the Group in respect of the Disposal;
- (b) the management accounts of the Target Company being true and accurate;
- (c) the Purchaser being satisfied with the results of the due diligence review on the financial conditions of the Target Company; and
- (d) the Disposal having obtained all necessary approvals from the relevant regulatory authorities and being in compliance with the GEM Listing Rules.

If any of the above conditions have not been fulfilled within 180 days from the date of the Sale and Purchase Agreement, the Sale and Purchase Agreement shall cease and determine and no party to the Sale and Purchase Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the Sale and Purchase Agreement unless the nonfulfillment of the conditions precedent has been caused by gross negligence or intent.

Completion of transfer of Sale Capital

Completion will take place on the date of completion of registration of the transfer of Sale Capital with the relevant PRC authority.

As at the date of the Sale and Purchase Agreement, an indebtedness was due from Vendor A to the Target Company, which would be novated by the Purchaser upon Completion. Upon Completion, the Group will cease to hold any interests in the Target Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC and is principally engaged in sales of piped natural gas and provision of gas supply connection services in Beiliu City, Guangxi Province, the PRC. Before Completion, the Target Company has a registered capital of RMB30,000,000, which is owned as to 97.5% by Vendor A and as to 2.5% by Vendor B, respectively

The unaudited financial information of the Target Company for the two years ended 31 December 2020 and for the period of nine months ended 30 September 2021 and prepared in accordance with the accounting principles generally accepted in Hong Kong are as follows:

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2020 RMB'000	For the period of the nine months ended 30 September 2021 RMB'000
Revenue	93,703	89,569	83,620
Net profit/(loss) before taxation	9,317	4,106	(970)
Net profit/(loss) after taxation	7,321	3,228	(2,320)

The unaudited net asset value of the Target Company as at 31 December 2019 and 31 December 2020 was approximately RMB82,003,000 and RMB24,283,000, respectively.

REASONS AND BENEFITS FOR THE DISPOSAL

The Group is principally engaged in the exploitation, liquefaction production and sales of natural gas and coalbed gas and provision of gas supply connection services in the PRC.

It is estimated that upon Completion, the Group will record a gain of approximately HK\$90,222,000 on the Disposal. Which is arrived at after (i) deducting the net asset value of the Target Company as at 30 April 2021 of approximately RMB23,672,000; and (ii) adding the assignment of receivables to the Vendor of approximately RMB35,000,000, being amounts due from intra-group companies, to the consideration of the Disposal. The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to audit to be performed by the Company's auditors.

After deducting costs and the expenses relating to the Disposal and the relevant taxation together with the expected downward adjustment to the consideration as a result of losses incurred by the Target Company, it is expected that the net proceeds will be approximately RMB51,000,000, of which approximately RMB40,000,000 will be used for well drilling and pipeline construction work, and the remaining balance of approximately RMB11,000,000 shall be applied towards the repayment of indebtedness and for the general working capital of the Group. The actual net proceeds from the Disposal shall be subject to adjustments to the consideration.

The earning of the Target Company for 2020 and 2019 amounted to approximately RMB3,228,000 and RMB7,321,000 respectively. Due to the significant increase in the cost of LNG purchased by the Target Company in 2021, cost inversion has started to occur since June 2021. The Target Company tried to pass on the cost to the end users, but as the Target Company held the local concession and in order to stay committed to its social responsibility, it did not raise the sales price and maintained the gas supply to the local enterprises. From January to October 2021, the unaudited accumulated loss of the Target Company was approximately RMB7,396,000. The unaudited loss for each of September and October 2021 amounted to approximately RMB2,598,000 and RMB5,076,000 respectively. The Board is of the view that the future operating conditions of the Target Company are not rosy and the disposal of the Beiliu Company will enhance the financial position of the Group and bring in more cash flow.

Taking into consideration of the aforesaid, the Directors (including the independent non-executive Directors) consider that the terms of the Disposal are fair and reasonable and are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATION

As more than one of the applicable percentage ratio(s) exceed 25% but less than 75%, the Disposal constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules and shall be subject to Shareholders' approval at the SGM.

To the best of the Directors' knowledge, information and belief, no Shareholders have a material interest in the Disposal and no Shareholders are required to abstain from voting at the SGM. A circular containing, among other matters, further details of the Disposal and a notice to convene the SGM will be despatched to the Shareholders in compliance with the GEM Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Board”	board of the Directors
“Company”	China CBM Group Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares are listed on GEM (stock code: 8270)
“Completion”	completion of the Disposal of the Sale Capital in accordance with the terms of the Sale and Purchase Agreement

“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	director(s) of the Company from time to time
“Disposal”	the disposal of the Sale Capital as contemplated under the Sale and Purchase Agreement
“GEM”	GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company together with its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not core connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the GEM Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement only excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	廣西銅州控股有限公司 (Guangxi Tongzhou Holding Co., Ltd.#), a limited liability company established in PRC and a subsidiary of 北流市財政局 (Beiliu City Finance Bureau#), which is the finance bureau of 北流市人民政府 (Beiliu City People’s Government#), the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 2 December 2021 and entered into between the Purchaser and the Vendors in respect of the disposal of Sale Capital
“Sale Capital”	100% equity interest of the Target Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	廣西北流燃氣有限公司 (Guangxi Beiliu Gas Co., Ltd.#), a limited liability company established in the PRC
“Vendor A”	廣西聯富商務服務有限公司 (Guangxi Lianfu Business Service Co., Ltd.#), a limited liability company established in the PRC, being a wholly-owned subsidiary of the Company
“Vendor B”	孫桂蘭 (Sun Guilan#)
“Vendors”	collectively, Vendor A and Vendor B
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board
China CBM Group Company Limited
Wang Zhong Sheng
Executive Director

Hong Kong, 2 December 2021

The English translation of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names and words.

As at the date hereof, the executive Directors are Mr. Wang Zhong Sheng and Mr. Chang Jian, the non-executive Directors are Mr. Duan Shi Chuan, Mr. Liang Feng and Mr. Wang Chen, and the independent non-executive Directors are Mr. Lau Chun Pong, Mr. Xu Yuan Jian and Mr. Wang Zhi He.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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.

This announcement will remain on GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting and the Company website at http://web.iprofpl.com/8270/info_e.html.