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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China CBM Group Company Limited (the “**Company**”), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities in the Company.

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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)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**Independent Financial Adviser**



**大有融資有限公司**  
**MESSIS CAPITAL LIMITED**

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A notice convening a special general meeting (the “**SGM**”) of the Company to be held at Conference Room, Yixian Scientific and Industrial Zone, 2 Cuiming Road, Wuqing Development Area, Tianjin, PRC on 3 December 2015 (Thursday) at 11:00 a.m. is set out on pages 70 to 72 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

17 November 2015

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## CHARACTERISTICS OF GEM

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**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 and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## DEFINITIONS

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

“Acquisition”	the proposed acquisition by Shanxi Yangcheng of the Sale Interest from Mr. Wang pursuant to the terms and conditions of the Agreement (as supplemented)
“Agreement”	the sale and purchase agreement dated 12 October 2015 and entered into between Shanxi Yangcheng and Mr. Wang in relation to the Acquisition which is supplemented by the Supplemental Agreement
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (excluding a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	China CBM Group Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares of which are listed on the GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement (as supplemented)
“Completion Date”	the third Business Day after the conditions precedent in the Agreement (as supplemented) are fulfilled or waived (as the case may be) or such other date as the parties to the Agreement shall agree
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration Shares”	178,004,166 new Shares to be allotted and issued to Mr. Wang to settle part of the total consideration of the Acquisition at Completion, which will rank pari passu in all respects with all other Shares in issue as at the Completion Date
“Convertible Bond”	the convertible bond in the principal amount of HK\$21,238,440 to be issued by the Company convertible up to 94,142,021 Conversion Shares at the Conversion Price
“Conversion Period”	the period commencing from the date of issue of the Convertible Bond and ending on the Maturity Date

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## DEFINITIONS

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“Conversion Price”	HK\$0.2256 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bond
“Conversion Rights”	the rights attached to the Convertible Bond to convert the same or a part thereof into Conversion Shares
“Conversion Share(s)”	up to 94,142,021 new Shares to be allotted and issued by the Company upon exercise in full of the Conversion Rights
“Director(s)”	the director(s) of the Company
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He, established to advise the Independent Shareholders in respect of the terms of the Agreement (as supplemented) and the transactions contemplated thereunder
“Independent Financial Adviser” or “Mesis Capital”	Mesis Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Wang and his associates and all other Shareholders who has a material interest in the Agreement and the transactions contemplated thereunder
“Last Trading Day”	9 October 2015, being the trading date immediately prior to the date of the Agreement
“Latest Practicable Date”	11 November 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Maturity Date”	the fifth anniversary of the date of issue of the Convertible Bond

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## DEFINITIONS

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“Mr. Wang”	Mr. Wang Zhong Sheng, an executive Director and a substantial Shareholder within the meaning of the GEM Listing Rules who also holds the entire equity interest in the Target Company
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Properties”	the four properties situate at Water Buffalo Shop, Shanglin Village, Xian County, Cangzhou City, Hebei Province, the PRC
“PRC Land”	a piece of land situated at the eastern section of the National Highway 106 (previously the Shanglin Brickfield) (106 國道東側、原商林磚廠)
“Sale Interest”	100% equity interest in the Target Company which is held by Mr. Wang
“Shanxi Yangcheng”	山西陽城順泰能源發展有限公司 (Shanxi Province Yangcheng County Shuntai Energy Development Co., Ltd), a company established in the PRC with limited liability and is a wholly-owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Acquisition and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Specific Mandate”	the specific mandate proposed to be granted by the Independent Shareholders to the Board to allot, issue and deal with the Consideration Shares and the Conversion Shares at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Supplemental Agreement”	the supplemental sale and purchase agreement dated 6 November 2015 to vary the terms of the Agreement
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buyback issued by the Securities and Futures Commission of Hong Kong
“Target Company”	諾信 (獻縣) 機械工程材料有限公司 (Nuoxin (Xian County) Engineering Materials Company Limited*), a company established in the PRC with limited liability and is wholly owned by Mr. Wang
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*In this circular, amounts in RMB are translated into HK\$ on the basis of RMB1 = HK\$1.2206. The conversion rate is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at such rate or at all.*

*\* For identification purpose only*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Wang Zhong Sheng (*Chairman*)  
Mr. Fu Shou Gang

*Independent non-executive Directors:*

Mr. Luo Wei Kun  
Ms. Pang Yuk Fong  
Mr. Wang Zhi He

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*

Room 910B, 9/F  
East Wing  
Tsim Sha Tsui Centre  
66 Mody Road  
Tsim Sha Tsui  
Kowloon, Hong Kong

17 November 2015

*To the Shareholders*

Dear Sir or Madam,

### DISCLOSEABLE AND CONNECTED TRANSACTION

#### INTRODUCTION

Reference is made to the announcements of the Company dated 12 October 2015 and 6 November 2015 respectively in relation to, inter alia, the Agreement (as supplemented) between Shanxi Yangcheng (a wholly owned subsidiary of the Company) as purchaser and Mr. Wang as vendor in relation to the sale and purchase of the Sale Interest, representing the entire equity interests of the Target Company. As Mr. Wang is a connected person of the Company and the relevant applicable percentage ratios exceed 5% but less than 25%, the Acquisition constitutes a discloseable and connected transaction on the part of the Company under Chapters 19 and 20 of the GEM Listing Rules and is subject to, among others, Independent Shareholders' approval at the SGM.

The purpose of this circular is to provide you with (i) details in relation to, among others, the Agreement (as supplemented) in accordance with the GEM Listing Rules; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Agreement (as supplemented); (iii) a letter of advice from Messis Capital to the Independent Board Committee and the Independent Shareholders in relation to the Agreement (as supplemented); (iv) the valuation report of the PRC Properties and the PRC Land; (v) the valuation report of the Target Company; and (vi) a notice convening the SGM.



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## LETTER FROM THE BOARD

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### THE AGREEMENT (AS SUPPLEMENTED)

**Date:** 12 October 2015 (after trading hours)

**Parties:**

- (i) Shanxi Yangcheng as purchaser; and
- (ii) Mr. Wang as vendor

Shanxi Yangcheng is a wholly owned subsidiary of the Company established in the PRC with limited liability which is principally engaged in the processing, storage and transportation of natural gas in the PRC.

Mr. Wang is the executive Director and he directly and indirectly holds approximately 18.94% of the entire issued share capital of the Company. Mr. Wang also holds the Sale Interest, being the entire equity interest in the Target Company. As such, Mr. Wang is a connected person of the Company.

### Assets to be acquired

Pursuant to the Agreement, Shanxi Yangcheng has conditionally agreed to purchase and Mr. Wang has conditionally agreed to dispose of the Sale Interest.

Further information on the Target Company is set out in the paragraph headed “Information on the Target Company” below.

### Consideration

Pursuant to the terms of the Agreement, the total consideration of the Acquisition is RMB50,300,000 (equivalent to approximately HK\$61,396,180), which shall be satisfied by Shanxi Yangcheng in the following manners:

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

The total consideration of the Acquisition was determined after arm’s length negotiations between Shanxi Yangcheng and Mr. Wang after taking into account (i) the registered capital of the Target Company; (ii) the market value of the PRC Properties and the land use right of the PRC Land; (iii) the fair value of the Target Company; and (iv) the business opportunities to and potential benefits of the Acquisition as detailed in the paragraph headed “Reasons for and benefits of the Acquisition” below.

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## LETTER FROM THE BOARD

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Based on the valuation report of the Target Company, the Directors consider that the fair value of the Target Company is RMB50.3 million which was equivalent to the appraised value of the Target Company as at 31 July 2015.

After the full payment of the total consideration of the Acquisition, Mr. Wang will cooperate with Shanxi Yangcheng to arrange for the transfer of the Sale Interest to Shanxi Yangcheng and the necessary filing and registration procedures in the PRC.

### **Further information on the Consideration Shares**

The issue price of the Consideration Shares (i.e. HK\$0.2256) represents:

- (a) a discount of approximately 1.05% to the closing price of HK\$0.228 per Share as quoted on the Stock Exchange on 9 October 2015, being the Last Trading Day of the Shares prior to the date of the Agreement;
- (b) an equivalent to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day of HK\$0.2256 per Share;
- (c) a discount of approximately 1.44% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive full trading days up to and including Last Trading Day of HK\$0.2289 per Share;
- (d) a discount of approximately 71.04% to the net assets value per Share of approximately HK\$0.779 based on the audited consolidated net assets value attributable to the Shareholders as at 31 December 2014;
- (e) a premium of approximately 2.55% to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (f) a discount of approximately 70.35% to the net assets value per Share of approximately HK\$0.761 based on the unaudited consolidated net assets value attributable to the Shareholders as at 30 June 2015.

The Consideration Shares represent (i) approximately 15.59% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 13.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change to the issued share capital of the Company from the date of this circular and up to Completion); and (iii) approximately 12.59% of the share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change to the share capital of the Company from the Latest Practicable Date and up to Completion).

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## LETTER FROM THE BOARD

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### Principal terms of the Convertible Bond

Set out below is a summary of the principal terms of the Convertible Bond:

Issuer	:	The Company
Principal amount:	:	The face value of HK\$21,238,440
Subscription price of the Convertible Bond	:	The subscription price of the Convertible Bond is HK\$21,238,440, being the total principal amount of the Convertible Bond.
Maturity Date	:	The fifth anniversary of the date of issue of the Convertible Bond.
Interest	:	The Convertible Bond shall bear no interest.
Conversion Price	:	HK\$0.2256 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bond.

The initial Conversion Price of HK\$0.2256 per Conversion Share represents:

- (i) a discount of approximately 1.05% to the closing price of HK\$0.228 per Share as quoted on the Stock Exchange on 9 October 2015, being the Last Trading Day of the Shares prior to the date of the Agreement;
- (ii) an equivalent to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day of HK\$0.2256 per Share;
- (iii) a discount of approximately 1.44% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive full trading days up to and including Last Trading Day of HK\$0.2289 per Share;
- (iv) a premium of approximately 2.55% to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a discount of approximately 71.04% to the net assets value per Share of approximately HK\$0.779 based on the audited consolidated net assets value attributable to the Shareholders as at 31 December 2014; and

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## LETTER FROM THE BOARD

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- (vi) a discount of approximately 70.35% to the net assets value per Share of approximately HK\$0.761 based on the unaudited consolidated net assets value attributable to the Shareholders as at 30 June 2015.

The Conversion Price was determined after arm's length negotiations between the Company and Mr. Wang, with reference to the recent performance of the Shares, the prevailing market price of the Shares and the Group's existing financial position and current market conditions.

The Directors (including the independent non-executive Directors whose views have been set out in this circular after being advised by the Independent Financial Adviser) is of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned, and the Conversion Price is in the interest of the Company and the Independent Shareholders as a whole.

- Adjustment events : The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events, including the followings:
- (i) an alternation of the nominal amount of the Shares by reasons of share consolidation or subdivision;
  - (ii) an issue by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
  - (iii) capital distribution made by the Company to the Shareholders (whether on a reduction of capital or otherwise) or a grant by the Company to the Shareholders of rights to acquire for cash assets of the Company or any of its subsidiaries;
  - (iv) issue wholly for cash any Shares at a price per Share which is less than 90% of the then market price on the date of the announcement of the terms of such issue;
  - (v) offer to holders of the Shares new Shares for subscription by way of rights, or shall grant to holders of the Shares any options or warrants to subscribe for new Shares, at a price which is less than the market price on the date of the announcement of the terms of the offer or grant;

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## LETTER FROM THE BOARD

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- (vi) issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 90% of the market price on the date of the announcement of the terms of issue of such securities; and (i) any modification of the rights of conversion or exchange or subscription attached to any such securities as are mentioned in (i) above so that the total effective consideration per Share initially receivable for such securities shall be less than 90% of the market price at the date of announcement of the proposal for modification; and for the purposes of this sub-paragraph, the “total effective consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the total effective consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue;
  
- (vii) an issue by the Company of any Share for the acquisition of asset at a total effective consideration per Share which is less than 90% of the market price at the date of the announcement of the terms of such issue; and for the purpose of this sub-paragraph, the “total effective consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “total effective consideration per Share” shall be the total effective consideration divided by the number of Shares issued as aforesaid; and

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## LETTER FROM THE BOARD

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(viii) issue Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), except in certain circumstances specified in the bye-laws of the Company, Shares paid up out of distributable profits or reserves and/or share premium account or capital redemption reserve fund issued in lieu of the whole or any part of a relevant cash dividend, being a scrip dividend (but only to the extent that the market value of such Shares exceeds 120% of the amount of such relevant cash dividend or the relevant part thereof) and which would not have constituting equity share capital of the Company, credited as fully paid to Shareholders.

- Conversion Shares : Based on the initial Conversion Price of HK\$0.2256 (assuming that the Conversion Shares are converted in full and there is no other change to the issued share capital of the Company; apart from the allotment and issue of the Consideration Shares, from the Latest Practicable Date and up to Completion), a maximum number of up to 94,142,021 Conversion Shares shall be allotted and issued upon exercise in full of the Conversion Rights.
- Conversion Period : The period commencing from the date of issue of the Convertible Bond and ending on the Maturity Date.
- Conversion Rights : Subject to, and upon compliance with, the conditions of the instrument governing the Convertible Bond and provided that any conversion of the Convertible Bond (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Bondholder which exercised the Conversion Rights and party(ies) acting in concert (as defined under the Takeovers Code) with it; and (ii) will not cause the public float of the Company being unable to meet the requirement under the Listing Rules, the Conversion Rights may be exercised by the Bondholder at any time during the Conversion Period in amounts not less than a whole multiple of HK\$500,000 on such conversion, save that if at any time the entire principal amount or the outstanding principal amount of the Bond held by a Bondholder is less than HK\$500,000, or if a Bondholder intends to exercise the Conversion Rights attached to the entire principal amount of all the Bonds held by him, the Bondholder may convert the whole (but not part only) of the such outstanding principal amount of the Bonds.

No fraction of a Share shall be issued on conversion and in lieu thereof the Company shall pay a cash amount equal to such amount of the Convertible Bond that is not converted.

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## LETTER FROM THE BOARD

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- Conversion restrictions : The Company shall not be required to issue any Conversion Shares, if, as a result of the relevant exercise of the Conversion Rights:
- (i) the holder of the Convertible Bond and parties acting in concert with it will trigger a mandatory offer obligation under the Takeovers Code; and
  - (ii) less than 25% or the minimum prescribed percentage as set out in the Listing Rules of the Company's issued shares would be held by the public immediately after the relevant exercise of such Conversion Rights.
- Redemption : The Company may at any time before the Maturity Date, by giving not less than 2 Business Days' notice to the Bondholders, redeem all or part of the outstanding Convertible Bond.
- Unless previously redeemed, converted or cancelled as provided herein, the Company will redeem the outstanding principal amount of the Convertible Bond on the Maturity Date at such outstanding principal amount.
- Status and ranking : The obligations of the Company arising under the Convertible Bond constitute general, direct, unsubordinated, unconditional and unsecured obligations of the Company, and rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured obligations of the Company.
- The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue.
- Voting rights : The Bondholder will not be entitled to vote at any meetings of the Company by reason only of it being the holder of the Convertible Bond.
- Transferability : The Convertible Bond may be transferred to any person with the Company's consent provided that such transfer shall comply with the Listing Rules, the Takeovers Code and any other relevant laws and regulations.
- Application for listing : No application will be made by the Company to the Stock Exchange for listing of the Convertible Bond.

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## LETTER FROM THE BOARD

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The Conversion Shares represent (i) approximately 8.25% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 6.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion).

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

The aggregate of the Consideration Shares and the Conversion Shares represent (i) approximately 23.84% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 19.25% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion).

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares. The Consideration Shares and the Conversion Shares to be allotted and issued shall rank pari passu among themselves and with all Shares in issue on the Completion Date.

### **Conditions precedent**

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (i) all necessary consents and approvals required to be obtained on the part of Mr. Wang in respect of the sale and purchase of the Sale Interest having been obtained;
- (ii) all necessary consents and approvals required to be obtained on the part of Shanxi Yangcheng in respect of the sale and purchase of the Sale Interest having been obtained;
- (iii) no events have occurred that would result in any breach of any of the warranties or other obligations of Mr. Wang pursuant to the Agreement;
- (iv) the Independent Shareholders having approved the Agreement and the transactions contemplated thereunder including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares at the SGM by resolution;
- (v) the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares;
- (vi) the obtaining of a PRC legal opinion (in the form and substance satisfactory to Shanxi Yangcheng) issued by a PRC legal adviser appointed by Shanxi Yangcheng on the Target Company (including but not limited to the transactions contemplated under the Agreement and due incorporation and continuance of the Target Company);



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## LETTER FROM THE BOARD

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- (vii) the obtaining of a valuation report (in the form and substance satisfactory to Shanxi Yangcheng) issued by a qualified valuer appointed by Shanxi Yangcheng showing that the market value of the Target Company shall not be less than RMB50,300,000; and
- (viii) Shanxi Yangcheng being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Company.

Shanxi Yangcheng may at any time waive in writing conditions (iii) and (viii) above in whole or in part. The Conditions (i), (ii), (iv), (v), (vi) and (vii) above are incapable of being waived. The waiver of such conditions is sought for the purpose that the Acquisition will not fall through as a result of insignificant divergence from such conditions. In the event that any of the conditions (iii) and (viii) could not be fully fulfilled, the waiver of such conditions is to be determined by the Board after considering the interests of the Company and the Shareholders as a whole and the Board will ensure that such waiver (if granted) is fair and reasonable and in interests of the Company and the Shareholders as a whole.

If any of the conditions above have not been fulfilled by 31 December 2015 (or such later date as agreed by Shanxi Yangcheng and Mr. Wang), the Agreement shall thereupon terminate and neither party shall have any further claims against each other under the Agreement for costs, damages, compensation or otherwise, save in respect of antecedent breaches and claims.

As at the Latest Practicable Date, none of the conditions above have been fulfilled and Shanxi Yangcheng has no intention to waive conditions (iii) and (viii) above.

### **Completion**

Completion shall take place on the third Business Day after all the conditions of the Agreement (as supplemented) have been fulfilled or waived (as the case may be) or such other date as may be agreed between Shanxi Yangcheng and Mr. Wang.

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

### **INFORMATION ON THE TARGET COMPANY**

The Target Company is a company established in the PRC on 23 October 2007 with limited liability and is principally engaged in the manufacture and sales of PE gas pipeline, metal model in construction use, mining machine, road compacting machine, crane (more than 50 tons) and exhaust fan for natural gas. As at the Latest Practicable Date, the registered capital and the paid-up capital of the Target Company is RMB47.5649 million and the entire equity interest in the Target Company is wholly owned by Mr. Wang. The original acquisition costs by Mr. Wang in the Target Company in 2011 was approximately RMB18.5 million.

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## LETTER FROM THE BOARD

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The Target Company owns the PRC Properties with an aggregate gross floor area of 18,161.04 square meters, and the land use right of the PRC Land with a total land use area of 73,467 square meters which are currently used by the Target Company as its production plant and office. As at 31 July 2015 which is the valuation date of the Target Company as set out in Appendix II to this circular, the land use rights of the PRC Land was the only intangible assets of the Target Company.

Set out below is the audited financial information of the Target Company for the year ended 31 December 2013 and the year ended 31 December 2014 and the unaudited management accounts of the Target Company for the period from 1 January 2015 to 30 September 2015 prepared in accordance with PRC GAAP:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2014</b>	<b>For the period from 1 January 2015 to 30 September 2015</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net loss before taxation and extraordinary items	1,156,000	3,266,000	1,091,000
Net loss after taxation and extraordinary items	1,156,000	3,266,000	1,091,000
	<b>As at 31 December 2013</b>	<b>As at 31 December 2014</b>	<b>As at 30 September 2015</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Net assets	33,403,000	30,137,000	29,046,000

The Target Company recorded net loss both before and after taxation and extraordinary items for each of the two years ended 31 December 2014 and the nine months ended 30 September 2015. The Target Company recorded a net loss of approximately RMB3.27 million for the year ended 31 December 2014 as compared to a net loss of approximately RMB1.16 million for the year ended 31 December 2013. The increase in net loss by approximately 182% was mainly due to a one -off loss of RMB1.09 million on disposal of fixed assets during the year ended 31 December 2014. For the nine months ended 30 September 2015, the Target Company recorded a net loss of RMB1.09 million, which was mainly attributed to the record of a gross loss and a depreciation on fixed assets for the period.

### REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the business of exploitation, liquefaction production and sales of natural gas in the PRC. Headquartered in Beijing. The Board believes that the Acquisition is in line with the development strategy of the Group and can create long-term and strategic interests for the Group.

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## LETTER FROM THE BOARD

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The development of natural gas industry has been a priority for the energy planning of the PRC. At present, demand for natural gas is increasing in China with huge growth potential. As pollution is worsening in China, governments at all levels are placing more emphasis on development of clean energy, which shows great potential in further development. However, the existing conventional natural gas production is unlikely to satisfy China's strong demand of natural gas in the coming years; and the Directors are of the view that it is inevitable that the PRC government would need to encourage the unconventional gas production. With all the favourable policy and measures in place, the Directors believe that the Company, as one of the leading coalbed methane company, will gain major benefits.

In view of the increasing domestic demand for clean energy, the goal of the Group is to turn itself into a vertically integrated natural gas producer and develop a complete value chain in nature gas business. In order to better equip itself for the huge growth potential of the natural gas market in China, the Company has been looking for expansion opportunities to structure its development plan and broaden its business base. Since July 2011, the Group has made significant investment in resources exploration and exploitation at the coalbed methane blocks located in Yangcheng, Shanxi Province, the PRC.

The Acquisition was identified and considered by the Directors as beneficial for the Company to diversify its existing business portfolio by tapping into the upstream segment of the value chain of the natural gas business with growth potentials. The Target Company and its management team possess (i) 8 years of experience in construction of machinery and gas pipeline; (ii) developed and ready on hand plant and equipment; and (iii) closely collaboration with the upstream development team of the Group, in which the Target Company has started the business relationship with the Group since 2013. The Group aims to turn itself into a vertically integrated natural gas producer and develop a complete value chain in nature gas business, including the upstream business, in particular the construction of gas pipeline.

Moreover, it is the business focus of the Group to develop its operations by further increasing the total gas output and the production capacity of the utilisation rate of its liquefied natural gas plant. The Group had and will continue to put capital investments at its coalbed methane wells and liquefied natural gas plant. During the years ended 31 December 2013 and 2014, the cash payment for purchase of property, plant and equipment amounted to approximately RMB153.0 million and RMB67.7 million respectively. The carry amount of the Group's pipelines amounted to RMB152.9 million and RMB146.8 million as at 31 December 2013 and 2014 respectively. After the completion of ground work and drilling of each well, the Group needs the gas supply pipelines connecting the gas block and the liquefied natural gas plant for gas output. The Directors are of the view that the Acquisition is coherent with the development plan in the natural gas business of the Company as a whole by acquiring the Target Company which is currently a pipeline supplier of the Group. The Directors believe that the Group will be able to enjoy a more stable supply of gas by securing the construction service of pipelines provided by the Target Company for its plant development and establish a complete business process at an expected lower cost after the Completion. Furthermore, the Directors are also of the view that the demand of such gas pipelines construction business will grow due to the commencement of some major oil and gas national projects. Hence the natural gas business will become strengthened among the operating activities of the Group. The natural gas business of the Group will further increase the market share of the Group and thus enhance the Group's positioning and widened its influence on the PRC natural gas market.

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## LETTER FROM THE BOARD

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Furthermore, the Acquisition will also allow the Group to absorb a professional team of management in gas pipeline construction, which will strengthen the capabilities of the Group in the management and operation of its natural gas business and will facilitate potential expansion.

Having considered that (i) the Acquisition represents an opportunity for the Group to extend its natural gas business upstream and to diversify its revenue stream; (ii) the Group is expected to be benefited by securing a stable supply of gas pipelines at a lower cost; (iii) the gas pipelines construction business will grow as natural gas infrastructure development is one of the main focuses of the PRC government; and (iv) it brings a professional team of management in gas pipeline construction to the Group, the Directors believe that the Acquisition is in the interests of the Company and the Shareholders as a whole.

The Directors (other than the independent non-executive Directors whose views have been set out in this circular after being advised by the Independent Financial Adviser) are of the view that the terms of the Agreement (as supplemented) and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms after arm's length negotiation between the parties, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### CHANGES IN SHAREHOLDING STRUCTURE

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company); and (iii) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change in the issued share capital of the Company):

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares (assuming no Conversion Shares have been allotted and issued)		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming all the Conversion Shares have been allotted and issued upon exercise of the Conversion Rights)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Wang and his associate(s) <i>(Note 1)</i>	216,235,817	18.94	394,239,983	29.88	488,382,004	34.55 <i>(Note 2)</i>
Other public shareholders	925,244,551	81.06	925,244,551	70.12	925,244,551	65.45
<b>Total:</b>	<b>1,141,480,368</b>	<b>100.00</b>	<b>1,319,484,534</b>	<b>100.00</b>	<b>1,413,626,555</b>	<b>100.00</b>

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## LETTER FROM THE BOARD

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*Notes:*

1. 18,118,500 Shares are held by Jumbo Lane Investments Limited, a company incorporated in the British Virgin Islands, which is beneficially owned as to 100% by Mr. Wang who is taken to be interested in the Shares owned by Jumbo Lane Investments Limited pursuant to Part XV of the SFO. Mr. Wang 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) 198,442,067 Shares held by him personally.
2. Pursuant to the terms and conditions of the Convertible Bond, the Company shall not be required to issue any Conversion Shares, if, as a result of the relevant exercise of the Conversion Rights the holder of the Convertible Bond and parties acting in concert with it will trigger a mandatory offer obligation under the Takeovers Code. Thus, the scenario with the shareholding of Mr. Wang and his associates over 30% is only for illustration purpose and it will not happen.

### IMPLICATION OF THE ACQUISITION UNDER THE GEM LISTING RULES

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

As at the Latest Practicable Date, Mr. Wang is the executive Director and he directly and indirectly interested in 216,235,817 Shares, representing approximately 18.94% of the entire issued share capital of the Company and therefore is a substantial shareholder of the Company within the meaning of the GEM Listing Rules. As such, Mr. Wang is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Mr. Wang and his associates are required to abstain from voting in respect of the resolution(s) approving the Agreement (as supplemented) and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Conversion Shares) at the SGM. Save for the aforesaid and to the best knowledge of the Company, as at the Latest Practicable Date, no other Shareholder has material interest in the Acquisition and therefore no other Shareholder is required to abstain from voting on the proposed resolution(s) approving the Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Conversion Shares) at the SGM.

Mr. Wang as the Vendor has a material interest in the Acquisition and he has abstained from voting on the relevant board resolutions approving the Agreement (as supplemented) and the transactions contemplated thereunder. Save for Mr. Wang, no other Directors have a material interest in the Acquisition and no other Directors have abstained from voting on the relevant board resolutions approving the Agreement (as supplemented) and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### SGM

A notice convening the SGM to be held at Conference Room, Yixian Scientific and Industrial Zone, 2 Cuiming Road, Wuqing Development Area, Tianjin, PRC on 3 December 2015 (Thursday) at 11:00 a.m. is set out on pages 70 to 72 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 20 of this circular; and (ii) the letter from Messis Capital to the Independent Board Committee and Independent Shareholders in connection with the Agreement (as supplemented) and the principal factors and reasons considered by them in arriving such advice set out on pages 21 to 46 of this circular.

The Board (including the independent non-executive Directors whose views have been set out in this circular after being advised by the Independent Financial Adviser) is of the view that the Agreement (as supplemented) is on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement (as supplemented) and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

By order of the Board  
**China CBM Group Company Limited**  
**Wang Zhong Sheng**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

17 November 2015

*To the Independent Shareholders*

Dear Sir or Madam,

#### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to the circular of the Company to the Shareholders dated 17 November 2015 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Agreement (as supplemented) are fair and reasonable so far as the Independent Shareholders are concerned.

Having taken into account the terms of the Agreement and the advice from Messis Capital, we consider that whilst the Agreement is not in the ordinary and usual course of business of the Group, the terms and conditions of Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder. The letter from Messis Capital containing its recommendation to us and the principal factors and reasons taken into the account by Messis Capital in arriving at such recommendations is set out on pages 21 to 46 of the Circular.

Yours faithfully,  
Independent Board Committee of  
**China CBM Group Company Limited**

**Mr. Luo Wei Kun**  
*Independent non-executive  
Director*

**Ms. Pang Yuk Fong**  
*Independent non-executive  
Director*

**Mr. Wang Zhi He**  
*Independent non-executive  
Director*

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## LETTER FROM MESSIS CAPITAL

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*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.*



**大有融資有限公司**  
**MESSIS CAPITAL LIMITED**

17 November 2015

*To: The Independent Board Committee and the Independent Shareholders of  
China CBM Group Company Limited*

Dear Sir/Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the Supplemental Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 17 November 2015, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 12 October 2015, after trading hours, Shanxi Yangcheng (a wholly owned subsidiary of the Company) and Mr. Wang entered into the Agreement (as supplemented), pursuant to which Shanxi Yangcheng has conditionally agreed to purchase and Mr. Wang has conditionally agreed to dispose of the Sale Interest. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Company’s consolidated financial statements.

Pursuant to the terms of the Agreement (as supplemented), the total consideration of the Acquisition is RMB50,300,000 (equivalent to approximately HK\$61,396,180) which shall be satisfied by (i) as to RMB32,899,999.88 (equivalent to approximately HK\$40,157,739.85) by way of allotment and issue of 178,004,166 Consideration Shares, credited as fully paid, at an issue price of approximately HK\$0.2256 per Consideration Share to Mr. Wang at Completion; and (ii) as to RMB 17,400,000.12 (equivalent to approximately HK\$21,238,440) by way of issue of the Convertible Bond in the principal amount of HK\$21,238,440 convertible up to 94,142,021 Convertible Shares upon the exercise of the Conversion Rights at a conversion price of HK\$0.2256 per Conversion Share to Mr. Wang at Completion. The Consideration Shares and the Conversion Shares will be allotted and issued under the Specific Mandate.



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## LETTER FROM MESSIS CAPITAL

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As the relevant percentage ratio(s) calculated in accordance with Rule 19.07 of the GEM Listing Rules in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company and is therefore subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

As at the Latest Practicable Date, Mr. Wang is the executive Director and he directly and indirectly interested in 216,235,817 Shares, representing approximately 18.94% of the entire issued share capital of the Company and therefore is a substantial shareholder of the Company within the meaning of the GEM Listing Rules. As such, Mr. Wang is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Mr. Wang and his associates are required to abstain from voting in respect of the resolution(s) approving the Agreement (as supplemented) and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Conversion Shares) at the SGM. Save for the aforesaid and to the best knowledge of the Company, as at the Latest Practicable Date, no other Shareholder has material interest in the Acquisition and therefore no other Shareholder is required to abstain from voting on the proposed resolution(s) approving the Agreement (as supplemented) and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Conversion Shares) at the SGM.

The Independent Board Committee comprising three independent non-executive Directors, namely Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He, has been established to advise the Independent Shareholders in respect of the terms of the Agreement (as supplemented) and the transactions contemplated thereunder. We, MESSIS Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Agreement (as supplemented) and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable, and whether the entering into of the Agreement (as supplemented) and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the proposed resolutions relating to the Agreement (as supplemented) and the transactions contemplated thereunder at the SGM.

Other than this appointment as the Independent Financial Adviser of the Company in connection with the Agreement (as supplemented) and the transactions contemplated thereunder, we have no relationships or interests with the Company, Shanxi Yangcheng, Mr. Wang, their respective associates, close associates or core connected persons and any other parties that could reasonably be regarded as relevant to our independence. During the last two years, we were appointed as an independent financial adviser for the Company regarding a refreshment of general mandate of the Company, details of which are set out in the Company's circular dated 28 February 2014. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company. We are hence independent from the Company pursuant to Rule 17.96 of the GEM Listing Rules and accordingly, are considered eligible to give independent advice and recommendation in respect of the Agreement (as supplemented) and the transactions contemplated thereunder.

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## LETTER FROM MESSIS CAPITAL

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### **BASIS OF OUR ADVICE**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and will continue to be so as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representation provided to by the Company, the Directors and the management of the Company.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, the Target Company and their respective associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM MESSIS CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability in July 2002 and continued in Bermuda as an exempted company with limited liabilities in accordance with the Company Act 1981 (as amended) of Bermuda and the change in domicile became effective in April 2014. The Group is principally engaged in the business of exploitation, liquefaction production and sales of natural gas in the PRC. Headquartered in Beijing, the Group's production of liquefied coalbed gas is in Shanxi Qinshui Basin which boasts the liquefied coalbed gas, while its distribution network extends to Shanxi, Guangxi and Guangdong Provinces, etc. As set out in the annual report of the Company for the year ended 31 December 2014 (the "2014 Annual Report"), the Group had established a complete business process covering coalbed methane extraction, liquefaction, pipelines and highway transportation, distribution network and technical services. During 2014, the Group had completed the ground work and drilling of numerous wells and the gas supply pipeline connecting a gas block and liquefied natural gas plant was constructed and put into operation which resulted in increase in gas output and secure more stable gas supply of the Group. It was the business focus of the Group to continue to improve output of production wells and construct new wells in 2015.

Set out below are the financial summary of the Group for the two years ended 31 December 2014 and the six months ended 30 June 2015 prepared in accordance with Hong Kong Financial Reporting Standards as extracted from the 2014 Annual Report and the interim report of the Company for the six months ended 30 June 2015 (the "2015 Interim Report"):

	For the year ended 31 December		For the 6 months ended 30 June	
	2013 RMB'000	2014 RMB'000	2014 RMB'000	2015 RMB'000
Turnover	187,184	301,119	112,530	158,192
Gross profit/(loss)	(24,285)	26,328	(10,135)	9,468
Loss before taxation	(291,853)	(380,640)	(45,397)	(22,823)
Loss for the year/period	(278,761)	(342,316)	(44,782)	(22,183)

	As at 31 December		As at 30 June
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Total assets	1,506,671	1,283,223	1,316,442
Total liabilities	685,922	548,147	603,674
Net assets	820,749	735,076	712,768

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## LETTER FROM MESSIS CAPITAL

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As set out in the 2014 Annual Report, the Group recorded a turnover of approximately RMB187.18 million and RMB301.12 million for the two years ended 31 December 2013 and 31 December 2014 respectively, representing a year-on-year increase of approximately 60.87% as compared to the preceding financial year. The increase in turnover was mainly generated from the increase in number of coalbed methane wells in production and a stable supply of gas in 2014. The Group recorded a gross profit of approximately RMB26.33 million for the year ended 31 December 2014 as compared with a gross loss position for the year ended 31 December 2013, which was mainly attributed to the increase in the production of liquefied coalbed gas. The Group recorded an increase in net loss for the year ended 31 December 2014 of approximately RMB342.32 million as compared with that of approximately RMB278.76 million for the year ended 31 December 2013 which was mainly attributable to (i) the impairment loss on intangible assets of exclusive right for piped natural gas operation and operating license for liquefied coalbed gas logistics was recognised; (ii) the Company and the subscribers entered into separate and independent subscription agreements and as a result of debt-equity swap, the recognition of difference between the share subscription price and the market price of the shares as at the share allotment date derived a loss on extinguishment of liability of RMB57 million; (iii) compensation fee on exploration; and (iv) decrease in finance costs as a result of decrease in bank and other borrowings.

As set out in the 2015 Interim Report, the Group recorded a turnover of approximately RMB158.19 million for the six months ended 30 June 2015, representing an increase of approximately 40.58% as compared with corresponding periods in the previous financial year and a gross profit of approximately RMB9.47 million for the six months ended 30 June 2015 was recorded. It was mainly attributable to the decrease in the cost of liquefied coalbed gas as the production of liquefied coalbed gas had increased during the period. The Group recorded a decrease in net loss for the six months ended 30 June 2015 of approximately RMB22.10 million as compared with that of approximately RMB44.78 million for the six months ended 30 June 2014. This was mainly attributable to the increase in the number of upstream wells and gas output and the increasingly consolidated foundation of the Company's upstream business.

As set out in the Annual Report 2014, total assets of the Group was approximately RMB1,506.67 million and RMB1,283.22 million as at 31 December 2013 and 2014 respectively. The Group's total assets mainly consisted of property, plant and equipment which accounted for approximately 51.96% and 68.02% of the Group's total assets respectively. Pipeline, plant and machinery were the key components of the Group's property, plant and equipment. The decrease in total assets in 2014 was mainly attributed to the impairment losses on goodwill and intangible assets recorded in 2014. The Group recorded total liabilities of approximately RMB685.92 million and RMB548.15 million as at 31 December 2013 and 2014 respectively. The Group's total liabilities mainly consisted of trade and other payables, bank and other borrowings, obligations under finance leases, etc. The decrease in total liabilities was mainly attributed to the decrease in bank and other borrowings of the Group in 2014.

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## LETTER FROM MESSIS CAPITAL

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As set out in the Interim Report 2015, total assets of Group as at 30 June 2015 slightly increased to approximately RMB1,316.44 million while the total liabilities of the Group increased to approximately RMB603.67 million. As advised by the Directors, the increase in total liabilities was mainly attributable from the increase in obligation under finance leases for the prepayment on purchasing of gas and repayment of outstanding balance of major gas suppliers as at 31 December 2014.

### *Audit opinions*

Independent Shareholders should note that the auditor of the Company, HLB Hodgson Impey Cheng Limited, without qualifying its opinion, drew the attention to the financial statements of the Company for the financial year ended 31 December 2014 which indicated that the Group incurred a net loss of approximately RMB342.32 million for the year ended 31 December 2014 and the Group's current liabilities exceeded its current assets by approximately RMB334.61 million as of 31 December 2014. These conditions indicated the existence of material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

## **2. Background information of the Target Company**

According to the Letter from the Board, the Target Company is a company established in the PRC on 23 October 2007 as a limited liability company with a registered capital and a paid-up capital of RMB47.5649 million as at the Latest Practicable Date. The Target Company is principally engaged in the manufacture and sales of PE gas pipeline, metal model in construction use, mining machine, road compacting machine, crane (more than 50 tons) and exhaust fan for natural gas. As at the Latest Practicable Date, the entire equity interest in the Target Company is wholly owned by Mr. Wang. The original acquisition costs by Mr. Wang in the Target Company in 2011 was approximately RMB18.5 million. The Target Company owns the PRC Properties with an aggregate gross floor area of 18,161.04 square meters, and the land use right of the PRC Land with a total land use area of 73,467 square meters which are currently used by the Target Company as its production plant and office.

### *Financial information of Target Company*

The table below summarises the audited financial information of the Target Company for the year ended 31 December 2013 and the year ended 31 December 2014 and the unaudited management accounts of the Target Company for the nine months ended 30 September 2015 prepared in accordance with PRC GAAP:

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## LETTER FROM MESSIS CAPITAL

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	<b>For the period from</b>		
	<b>For the year ended</b>		<b>1 January 2015</b>
	<b>31 December</b>		<b>to 30 September</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Net loss before and after taxation and extraordinary items	1.16	3.27	1.09
	<b>As at</b>		
	<b>As at 31 December</b>		<b>30 September</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Net assets	33.40	30.14	29.05

We noted from the tables above that the net assets of the Target Company was approximately RMB33.40 million, RMB30.14 million and RMB29.05 million as at 31 December 2013, 31 December 2014 and 30 September 2015 respectively. The decrease of net assets from RMB33.40 million as at 31 December 2013 to RMB30.14 million as at 31 December 2014 was mainly attributed to the decrease in trade and other receivables as turnover had dropped during the year 2014, associated with the increase in total liabilities resulted from the significant increase in trade and other payables of the Target Company.

The Target Company recorded a net loss of approximately RMB3.27 million for the year ended 31 December 2014 as compared to a net loss of approximately RMB1.16 million for the year ended 31 December 2013. As set out in the Letter from the Board, the increase in net loss by approximately 182% was mainly due to a one-off loss of RMB1.09 million on disposal of fixed assets during the year ended 31 December 2014. For the nine months ended 30 September 2015, the Target Company recorded a net loss of approximately RMB1.09 million, which was mainly attributed to the record of a gross loss and a depreciation on fixed assets for the period.

### 3. Reasons for and the benefits of the Acquisition

As stated in the Letter from the Board, the Group is principally engaged in the business of exploitation, liquefaction production and sales of natural gas in the PRC. The Board believes that the Acquisition is in line with the development strategy of the Group and can create long-term strategic interests for the Group.

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## LETTER FROM MESSIS CAPITAL

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The development of natural gas industry has been a priority for the energy planning of the PRC. At present, demand for natural gas is increasing in China with huge growth potential. As pollution is worsening in China, governments at all levels are placing more emphasis on development of clean energy, which shows great potential in further development. However, the existing conventional natural gas production is unlikely to satisfy China's strong demand of natural gas in the coming years; and the Directors are of the view that it is inevitable that the PRC government would need to encourage the unconventional gas production. With all the favourable policy and measures in place, the Directors believe that the Company, as one of the leading coalbed methane company, will gain major benefits.

In view of the increasing domestic demand for clean energy, the goal of the Group is to turn itself into a vertically integrated natural gas producer and develop a complete value chain in nature gas business. In order to better equip itself for the huge growth potential at the natural gas market in China, the Company has been looking for expansion opportunities to structure its development plan and broaden its business base. Since July 2011, the Group has made significant investment in resources exploration and exploitation at the coalbed methane blocks located in Yangcheng, Shanxi Province, the PRC.

The Acquisition was identified and considered by the Directors as beneficial for the Company to diversify its existing business portfolio by tapping into the upstream segment of the value chain of the natural gas business with growth potentials. The Target Company and its management team possess (i) 8 years of experience in construction of machinery and gas pipeline; (ii) developed and ready on hand plant and equipment; and (iii) closely collaboration with the upstream development team of the Group, in which the Target Company has started the business relationship with the Group since 2013. The Group aims to turn itself into a vertically integrated natural gas producer and develop a complete value chain in nature gas business, including the upstream business, in particular the construction of gas pipeline.

Moreover, it is the business focus of the Group to develop its operations by further increasing the total gas output and the production capacity of the utilisation rate of its liquefied natural gas plant. The Group had and will continue to put capital investments at its coalbed methane wells and liquefied natural gas plant. During the years ended 31 December 2013 and 2014, the cash payment for purchase of property, plant and equipment amounted to approximately RMB153.0 million and RMB67.7 million respectively. The carry amount of the Group's pipelines amounted to RMB152.9 million and RMB146.8 million as at 31 December 2013 and 2014 respectively. After the completion of ground work and drilling of each well, the Group needs the gas supply pipelines connecting the gas block and the liquefied natural gas plant for gas output. The Directors are of the view that the Acquisition is coherent with the development plan in the natural gas business of the Company as a whole by acquiring the Target Company which is currently a pipeline supplier of the Group. The Directors believe that the Group will be able to enjoy a more stable supply of gas by securing the construction service of pipelines provided by the Target Company for its plant development and establishing a complete business process at an expected lower cost after the Completion. The Directors are also of the view that the demand of such gas pipelines construction business will grow due to the commencement of some major oil and gas national projects. Hence the natural gas business will become strengthened among the operating activities of the Group. The natural gas business of the Group will further increase the market share of the Group and thus enhance the Group's positioning and widened its influence on the PRC natural gas market.

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## LETTER FROM MESSIS CAPITAL

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Furthermore, the Acquisition will allow the Group to absorb a professional team of management in gas pipeline construction, which will strengthen the capabilities of the Group in the management and operation of its natural gas business and will facilitate potential expansion.

Having considered that (i) the Acquisition represents an opportunity for the Group to extend its natural gas business upstream and to diversify its revenue stream; (ii) the Group is expected to be benefited by securing a stable supply of gas pipelines at a lower cost; (iii) the gas pipelines construction business will grow as natural gas infrastructure development is one of the main focuses of the PRC government; and (iv) it brings a professional team of management in gas pipeline construction to the Group; we concur with view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

#### 4. Principal terms of the Acquisition

The principal terms of the Acquisition are summarised as follows:

Date of Agreement: 12 October 2015 (after trading hours)

Parties: (i) Shanxi Yangcheng as purchaser; and  
(ii) Mr. Wang as vendor

Shanxi Yangcheng is a wholly owned subsidiary of the Company established in the PRC with limited liability which is principally engaged in the processing, storage and transportation of natural gas in the PRC.

Mr. Wang is the executive Director and he directly and indirectly holds approximately 18.97% of the entire issued share capital of the Company. Mr. Wang also holds the Sale Interest, being the entire equity interest in the Target Company. As such, Mr. Wang is a connected person of the Company.

Assets to be acquired: The Sale Interest

Further information on the Target Company is set out in the paragraph headed “Information on the Target Company” as included in the Letter from the Board



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## LETTER FROM MESSIS CAPITAL

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### Consideration

The total consideration of the Acquisition is RMB50,300,000 (equivalent to approximately HK\$61,396,180), which shall be satisfied by Shanxi Yangcheng in the following manners:

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

After the full payment of the total consideration of the Acquisition, Mr. Wang will cooperate with Shanxi Yangcheng to arrange for the transfer of the Sale Interest to Shanxi Yangcheng and the necessary filing and registration procedures in the PRC.

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## LETTER FROM MESSIS CAPITAL

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### *Conditions precedent*

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (i) all necessary consents and approvals required to be obtained on the part of Mr. Wang in respect of the sale and purchase of the Sale Interest having been obtained;
- (ii) all necessary consents and approvals required to be obtained on the part of Shanxi Yangcheng in respect of the sale and purchase of the Sale Interest having been obtained;
- (iii) no events have occurred that would result in any breach of any of the warranties or other obligations of Mr. Wang pursuant to the Agreement;
- (iv) the Independent Shareholders having approved the Agreement and the transactions contemplated thereunder including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares at the SGM by resolution;
- (v) the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares;
- (vi) the obtaining of a PRC legal opinion (in the form and substance satisfactory to Shanxi Yangcheng) issued by a PRC legal adviser appointed by Shanxi Yangcheng on the Target Company (including but not limited to the transactions contemplated under the Agreement and due incorporation and continuance of the Target Company);
- (vii) the obtaining of a valuation report (in the form and substance satisfactory to Shanxi Yangcheng) issued by a qualified valuer appointed by Shanxi Yangcheng showing that the market value of the Target Company shall not be less than RMB50,300,000; and
- (viii) Shanxi Yangcheng being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Company.

Shanxi Yangcheng may at any time waive in writing conditions (iii) and (viii) above in whole or in part. The Conditions (i), (ii), (iv), (v), (vi) and (vii) above are incapable of being waived. The waiver of such conditions is sought for the purpose that the Acquisition will not fall through as a result of insignificant divergence from such conditions. In the event that any of the conditions (iii) and (viii) could not be fully fulfilled, the waiver of such conditions is to be determined by the Board after considering the interests of the Company and the Shareholders as a whole and the Board will ensure that such waiver (if granted) is fair and reasonable and in interests of the Company and the Shareholders as a whole.

If any of the conditions above have not been fulfilled by 31 December 2015 (or such later date as agreed by Shanxi Yangcheng and Mr. Wang), the Agreement shall thereupon terminate and neither party shall have any further claims against each other under the Agreement for costs, damages, compensation or otherwise, save in respect of antecedent breaches and claims.

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## LETTER FROM MESSIS CAPITAL

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As at the Latest Practicable Date, none of the conditions above have been fulfilled and Shanxi Yangcheng has no intention to waive conditions (iii) and (viii) above.

### *Completion*

Completion shall take place on the third Business Day after all the conditions of the Agreement (as supplemented) have been fulfilled or waived (as the case may be) or such other date as may be agreed between Shanxi Yangcheng and Mr. Wang.

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

### *Consideration of the Acquisition:*

According to the Letter from the Board, the consideration of the Acquisition is RMB50,300,000 (equivalent to approximately HK\$61,396,180) which was arrived at after arm's length negotiations between the Shanxi Yangcheng and the Mr. Wang, with reference to:

- (i) the registered capital of the Target Company;
- (ii) the market value of the PRC Properties and the land use right of the PRC Land;
- (iii) the fair value of the Target Company; and
- (iv) the business opportunities to and potential benefits of the Acquisition.

As at the Latest Practicable Date, the registered capital of the Target Company was amounted to approximately RMB47.57 million. The net assets value of the Target Company was amounted to RMB29.05 million as at 30 September 2015. As advised by the Directors, the consideration of approximately RMB50.30 million was equivalent to the market value of the 100% equity interest in the Target Company as at 31 July 2015 which was evaluated by BMI Appraisals Limited (the "Valuer") after taking into account the market value of the PRC Properties and the land use right of the PRC Land. Details of the valuation reports are set out in Appendix I and II of the Circular.

In assessing the fairness and reasonableness of the consideration, we have reviewed the valuation report of the Target Company and discussed with the Valuer in regard to the methodology adopted and the basis and assumptions used in arriving at the valuation of the Target Company. As advised by the Valuer and according to the valuation report of the Target Company, when faced with the options of adopting the valuation methodologies among the market approach, asset based approach and income approach, the Valuer considered that the asset based approach as more appropriate approach in arriving at the fair value for the Target Company as:

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## LETTER FROM MESSIS CAPITAL

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- (i) the Valuer considered that there were insufficient recent equity transactions involving similar companies in the industry in PRC and it was difficult to obtain sufficient comparable transactions that were relevant, reliable and accurate for the adoption of the market approach;
- (ii) given the recent loss making position of the Target Company and the absence of financial forecast of the Target Company, the Valuer considered the income approach not appropriate in assessing the value of the Target Company; and
- (iii) the asset based approach is more appropriate in the opinion of the Valuer as the core assets of the Target Company were tangible assets such as inventory, fixed assets and land use right. In the course of applying the asset based approach, there exist sufficient data and information as a basis and reference for the selection of economical and technical reference variables involved in valuing the various assets

As advised by the Valuer, the Valuer has considered the following in the valuation of the assets and liabilities of the Target Company:

### ***Current assets and liabilities***

In determining the valuation of the current assets and liabilities except inventories, the Valuer has adopted the book values as at 31 July 2015 as their fair value on the assumption that there exist no material difference between the book values and the fair values of the current assets and liabilities except the inventories. For inventories, the value were stated at cost on the assumption that the valuation has been prepared based upon the assumption of the inventories were freely transferable in the market and there exist no obsolete items in the inventories.

### ***Machineries and Equipment***

As advised by the Valuer, the Valuer has considered two generally accepted approaches to ascertain the market values, namely market approach and cost approach for the valuation of the machineries and equipment. The market approach is mainly for valuing assets for which there are established secondhand market comparables. The cost approach generally furnishes the most reliable indication of the values of assets in the absence of a known market based on comparable sales. We are advised by the Valuer that the valuation of a motor vehicle of the Target Company has been based on the market approach, while the cost approach is adopted for the valuation for the rest of the machineries and equipment.

### ***Land and Properties***

In valuing the PRC Properties, the Valuer has adopted the depreciated replacement cost approach. This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market.

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## LETTER FROM MESSIS CAPITAL

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Regarding the valuation of the land use right of the PRC Land, we are advised by the Valuer that the valuation was based on comparable lands of (i) similar location; (ii) similar permitted use as industrial use; (iii) similar size; and (iv) transacted within 12 months prior to the valuation date, to arrive at a fair comparison of capital value. As advised by the Valuer, save for the depreciation of the relevant fixed assets, there is no material variation in the valuation of the PRC Properties and the land use right of the PRC Land as at 31 July 2015 and 30 September 2015.

We are advised by the Valuer that the valuation approaches as adopted for valuing each type of assets and liabilities of the Target Company as specified above are common methodologies used in establishing the valuation of the assets and liabilities under asset based valuation approach.

We have interviewed the Valuer and are given to understand that it is a professional valuer who provides a wide spectrum of professional valuation and consultancy services to clients worldwide in connection with Initial Public Offering (IPO), public documentation, financial reporting, corporate financing, etc. The Valuer confirmed that it is an independent third party to the parties to the Agreement and their respective core connected persons. We understand that Mr. Marco Sze and Dr. Tony Cheng, the persons in charge of the valuation of the Target Company, have extensive experience in valuing similar assets as that of the Target Company in various industries and locations. We also understand that Ms. Joannau Chan, the person in charge of the valuation of the PRC properties and the land use right of the PRC Land, has extensive experience in valuations of properties in Hong Kong and the PRC. We have reviewed the terms of the Valuer's engagement letter and noted that the scope of work is appropriate for arriving at the opinion of market value on the Target Company, the PRC Properties and the land use right of the PRC Land. We are unaware that there are any limitations on the relevant scope of work. Furthermore, nothing has come to our attention that parties to the Agreement had made formal or informal representation to the Valuer that contravenes with our understanding of the information, to a material extent, as set out in this Circular.

Based on our discussions with the Valuer and our review on the valuation reports of the Target Company, the PRC Properties and the land use right of the PRC Land, and having considered that (i) the methodologies being applied in the valuations; (ii) the principle bases and assumptions used in arriving at the valuations; and (iii) the qualification, expertise and experiences of the Valuer, we consider that there is no substantial factors being identified which may cause us to doubt the fairness and reasonableness of the methodology adopted and the bases used in arriving at the valuations. As such, we consider that the valuations are fair references for the Independent Shareholders to assess the fairness and reasonableness of the fair market value of the Target Company.

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## LETTER FROM MESSIS CAPITAL

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Based on the above, in particular that (i) the Consideration represents the market value of the Target Company as at 31 July 2015 and (ii) the valuations of the Target Company, the PRC Properties and the land use right of the PRC Land are prepared by the Valuer in fair and reasonable manner, we concur with the view of the Directors that the consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### **The Consideration Shares and Convertible Bond**

According to the Agreement (as supplemented), the consideration will be settled by a combination of (i) the issuance of the Consideration Shares and (ii) the issuance of the Convertible Bond. Details of which were set out in the paragraph headed “Principal Terms of the Acquisition” above. As advised by the Directors, in determining the method of settlement of the consideration, the Company has also considered other alternative settlement methods such as cash payment. As set out in the Letter from the Board, the goal of the Group is to turn itself into a vertically integrated natural gas producer and develop a complete value chain in nature gas business. To satisfy the foregoing business strategies, the Directors expects the future cash requirement by the Group could be significant. Accordingly, the Directors considers that it is in the benefit of the Group to preserve its cash flow and to maintain a strong cash position for the time being in order to capture opportunities that may arise in the future and not to proceed the settlement of the consideration by way of cash payment.

As advised by the Directors, the settlement of the consideration by way of issue of Consideration Shares and Convertible Bond would not cause or create any cash outflows while the equity capital base of the Company would be enlarged and therefore, the current and future liquidity position of the Group can be properly maintained. Regarding bank financing and/or debt financing, we consider that it may (i) incur interest burden on the Group; and (ii) subject to, including but not limited to, lengthy due diligence and negotiations with the banks with regards to the Group’s financial position, capital structure and cost of funding of the Group as well as the prevailing market condition and the pledge of the Group’s assets. By other means of equity financing such as pro rata equity financing like rights issue or open offer, the Directors consider that rights issue or open offer may be more time consuming as compared to direct placement of shares and would incur substantial costs in form of legal costs and underwriting commission. On the other hand, the settlement method by way of issue of Consideration Shares and Convertible Bond can (i) retain more cash for general working capital and future expansion of the Group after the Acquisition; and (ii) enlarge the equity capital base of the Company without any cash outlay; we concur with the view of the Directors that the settlement of the consideration by way of issue of the Consideration Shares and the Convertible Bond is fair and reasonable and is in the interest of the Company and the Shareholders as a whole despite the dilution effect to the existing Shareholders upon issue of the Consideration Shares and the Convertible Bond.

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## LETTER FROM MESSIS CAPITAL

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### *Consideration Shares*

The Consideration Shares will be issued at the issue price of approximately HK\$0.2256 per Consideration Share to Mr. Wang at Completion.

The issue price of the Consideration Shares (i.e. HK\$0.2256) represents:

1. a discount of approximately 1.05% to the closing price of HK\$0.228 per Share as quoted on the Stock Exchange on 9 October 2015, being the Last Trading Day of the Shares prior to the date of the Agreement;
2. an equivalent to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day of HK\$0.2256 per Share;
3. a discount of approximately 1.44% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive full trading days up to and including Last Trading Day of HK\$0.2289 per Share; and
4. a discount of approximately 71.04% to the net assets value per Share of approximately HK\$0.779 based on the audited consolidated net assets value attributable to the Shareholders as at 31 December 2014.
5. a premium of approximately 2.55% to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
6. a discount of approximately 70.35% to the net assets value per Share of approximately HK\$0.761 based on the unaudited consolidated net assets value attributable to the Shareholders as at 30 June 2015.

The Consideration Shares represent (i) approximately 15.59% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 13.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion); and (iii) approximately 12.59% of the share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change to the share capital of the Company from the Latest Practicable Date and up to Completion).

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## LETTER FROM MESSIS CAPITAL

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a. *Historical Share price performance*

In order to assess the fairness and reasonableness of the issue price, we have reviewed the daily closing prices of the Shares as quoted on the Stock Exchange for the 6-month period prior to the Last Trading Day and up to the Latest Practicable Date (the “**Review Period**”).

Set out below is a chart showing the Share price movement during the Review Period:



Source: website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))



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## LETTER FROM MESSIS CAPITAL

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During the Review Period, the closing prices of the Shares ranged from HK\$0.215 per Share to HK\$0.660 per Share, with an average of approximately HK\$0.356 per Share. The closing price of the Shares exhibited a decreasing trend since June 2015 and reached the lowest point at HK\$0.215 per Share on 10 November 2015. Although the issue price and the Conversion Price of HK\$0.2256 are lower than such average closing price during the Review Period, having considered that the respective issue price and the Conversion Price of HK\$0.2256 is (i) within the range of closing prices of the Shares during the Review Period; (ii) equivalent to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day of HK\$0.2256 per Share; and (iii) is determined with reference to the prevailing market price of the Share immediately before entering into the Agreement which could better serve as the price indicator than the average closing price, especially when the share price was in a decreasing trend, we concur with the view of the Directors that the issue price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

*b. Market comparables for the Consideration Shares*

In order to further assess the fairness and reasonableness of the terms of the Consideration Shares, we have identified, as far as we are aware of, an exhaustive list of transactions relating to acquisitions made by listed issuers from their connected parties which involved the issuance of consideration shares as announced by companies listed on the Hong Kong Stock Exchange (the “**CS Comparables**”) during the Review Period. We have identified 22 transactions in this regard and we believe that the samples represent the latest available information in the market and the CS Comparables are exhaustive as far as we are aware and hence are fair and representative. We have compared the respective terms of the CS Comparables with those of the Consideration Shares, details of which are set out in the table below:

## LETTER FROM MESSIS CAPITAL

Date of Announcement	Stock Code	Company	Approximate premium/ (discount) of issue price over/to the closing price of the shares as at the last trading day prior to the release of the announcement up to and including the last trading day (%)	Approximate premium/ (discount) of issue price over/to the average closing price for the last 5 consecutive trading days prior to the release of the announcement up to and including the last trading day (%)	Approximate premium/ (discount) of issue price over/to the average closing price for the last 10 consecutive trading days prior to the release of the announcement up to and including the last trading day (%)
29/10/2015	3331	Vinda International Holdings Limited	(1.07)	(0.38)	(0.39)
29/10/2015	3331	Vinda International Holdings Limited	(1.07)	(0.38)	(0.39)
13/10/2015	383	COL Capital Limited	(17.53)	(17.18)	(16.67)
13/10/2015	607	Fullshare Holdings Limited	(20.00)	(20.23)	(20.46)
9/10/2015	8198	MelcoLot Limited	0.00	0.44	3.15
7/10/2015	377	Huajun Holdings Limited	25.00	24.58	26.37
2/10/2015	185	ZH International Holdings Limited	9.09	6.76	5.82
30/9/2015	2357	AviChina Industry & Technology Company Limited	0.00	(3.06)	(2.78)
9/9/2015	1252	China Tianrui Group Cement Company Limited	0.00	0.00	1.40
27/8/2015	1131	Agritrade Resources Limited	4.05	4.05	2.80
26/7/2015	493	GOME Electrical Appliances Holding Limited	(4.79)	(3.47)	1.39
16/7/2015	6828	Blue Sky Power Holdings Limited	0.00	(1.27)	0.78
3/7/2015	989	Ground Properties Company Limited	(35.11)	(15.51)	(9.67)
25/6/2015	1022	Feiyu Technology International Company Ltd.	0.00	(2.76)	(4.96)
17/6/2015	95	LVGEM (China) Real Estate Investment Company Limited	(32.01)	(26.90)	(26.69)
17/6/2015	8017	Long Success International (Holdings) Limited (Note 1)	(89.38)	(92.42)	(93.18)
9/6/2015	1387	Renhe Commercial Holdings Company Limited	(50.00)	(54.04)	(50.30)
28/5/2015	1717	Ausnutria Dairy Corporation Limited	(14.63)	(13.69)	(13.51)
20/5/2015	1165	Shunfeng International Clean Energy Limited	4.42	2.56	2.36
30/4/2015	8272	Chinese Food and Beverage Group Limited	(43.14)	(42.91)	(43.36)
28/4/2015	698	Tongda Group Holdings Limited	(5.29)	0.00	1.42
15/4/2015	241	Alibaba Health Information Technology Limited	(22.12)	(13.27)	(10.78)
		Maximum	25.00	24.58	26.37
		Minimum	(50.00)	(54.04)	(50.30)
		Mean	(9.72)	(8.41)	(7.36)
		The Consideration Shares	<b>(1.05)</b>	<b>0.00</b>	<b>(1.44)</b>

Source: the website of the Stock Exchange

Notes:

- The relevant information for transactions of Long Success International (Holdings) Limited as announced on 17 June 2015 is excluded from selected samples for the Review Period due to the extremities in value.

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## LETTER FROM MESSIS CAPITAL

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Based on the above illustration, the premium/discount represented by the issue price per consideration share issued by respective CS Comparables to their respective closing prices prior to the release of the relevant announcements ranged from a discount of approximately 50.00% to a premium of approximately 25.00% with an average of discount of approximately 9.72%. In addition, the premium/discount represented by the issue price per consideration share issued by respective CS Comparables to their respective average closing prices for the last five consecutive trading days prior to the release of the relevant announcements ranged from a discount of approximately 54.04% to a premium of approximately 24.58% with an average of discount of approximately 8.41%. Furthermore, the premium/discount represented by the issue price per consideration share issued by respective CS Comparables to their respective average closing prices for the last ten consecutive trading days prior to the release of the relevant announcements ranged from a discount of approximately 50.30% to a premium of approximately 26.37% with an average of discount of approximately 7.36%.

The issue price, which is equivalent to the average closing price for the last 5 consecutive trading days prior to the release of the Announcement up to and including the Last Trading Day and represents slight discounts to (i) the closing price of the Shares as at the last trading day prior to the release of the Announcement up to and including the Last Trading Day; and (ii) the average closing price for the last 10 consecutive trading days prior to the release of the Announcement up to and including the Last Trading Day, falls within the range of the CS Comparables and is hence in line with the market practice.

*c. Net assets value per Share*

It is noted that the issue price represents a discount of approximately 71.04% to the net assets value per Share of approximately HK\$0.779 based on the audited consolidated net assets value attributable to Shareholders as at 31 December 2014. Having considered that (i) the Shares has long been traded at prices below the net assets value per Share of HK\$0.779 during the Review Period and (ii) the Group was still in loss making position as set out in the 2014 Annual Report and 2015 Interim Report, we concur with the view of the Directors that the issue price, which is at a discount to the net assets value per Share is acceptable.

Based on the above and having considered, in particular, (i) the recent movements of the Share price during the Review Period; and (ii) the recent market comparables of transactions in similar nature, we concur with the view of the Directors that the issue price is fair and reasonable and the Consideration Shares are to be issued on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM MESSIS CAPITAL

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### *The Convertible Bond*

As set out in the Agreement (as supplemented), part of the consideration (being HK\$21,238,440) is to be settled by the issuance of the Convertible Bond. Set out below are the key terms of the Convertible Bond:

Principal amount:	The face value of HK\$21,238,440
Maturity Date:	The fifth anniversary of the date of issue of the Convertible Bond
Interest:	Nil
Conversion Price:	HK\$0.2256 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bond.
Maximum number of Conversion Shares issuable:	94,142,021 Conversion Shares shall be allotted and issued upon exercise in full of Conversion Rights.
Redemption:	The Company may at any time before the Maturity Date, by giving not less than 2 Business Days' notice to the Bondholders, redeem all or part of the outstanding Convertible Bond.

Unless previously redeemed, converted or cancelled as provided herein, the Company will redeem the outstanding principal amount of the Convertible Bond on the Maturity Date at such outstanding principal amount.

For other terms of the Convertible Bond, please refer to the paragraph headed "Principal terms of the Convertible Bond" in the Letter from the Board.

In order to assess the fairness and reasonableness of the terms of the Convertible Bond, we have selected and identified, so far as we are aware of, an exhaustive list of transactions relating to acquisitions by listed issuers from their connected parties which involved the issuance of convertible bond as announced by companies listed on the Hong Kong Stock Exchange (the "**CB Comparables**") during the Review Period. We have identified 13 transactions in this regard and we believe that the samples represent the latest available information in the market and the CB Comparables are exhaustive as far as we are aware and hence fair and representative. We have compared the respective terms of the CB Comparables with the Convertible Bond, details of which are set out in the table below:

## LETTER FROM MESSIS CAPITAL

### *CB Comparables*

Date of Announcement	CB Comparables (stock code)	Maturity (years)	Interest per annum (%)	Approximate premium/ (discount) of conversion price over/to the closing price of the shares as at the last trading day prior to the release of the announcement (%)	Approximate premium/ (discount) of conversion price to the average of the last 5 trading days prior to the release of the announcement (%)	Approximate premium/ (discount) of conversion price to the average of the last 6 months prior to the release of the announcement (%)
9/11/2015	Powerwell Pacific Holdings Limited (8265) (Note 1)	2	Nil	(64.29)	(61.10)	(52.59)
29/10/2015	Vinda International Holdings Limited (3331)	NA	NA	(1.07)	(0.38)	(0.39)
5/10/2015	Henry Group Holdings Limited (859)	5	1.68	3.78	0.00	(1.79)
13/8/2015 & 16/9/2015	GET Holdings Limited (8100)	2	Nil	(18.92)	(17.58)	(16.43)
10/7/2015	Pacific Plywood Holdings Limited (767) (Note 2)	5	Nil	(64.91)	(62.96)	(61.83)
3/7/2015	Ground Properties Company Limited (989)	5	2.00	(35.11)	(15.51)	(9.67)
29/5/2015	China Eco-Farming Limited (8166)	2	Nil	(3.85)	(1.73)	5.17
29/5/2015	China Eco-Farming Limited (8166)	2.25	Nil	(3.85)	(1.73)	5.17
11/8/2015	Pizu Group Holdings Limited (8053)	3	Nil	5.88	8.11	9.92
30/4/2015	Chinese Food and Beverage Group Limited (8272)	3.5	Nil	(43.14)	(42.91)	(43.36)
20/4/2015	CIAM Group Limited (378)	3	8.00	16.44	14.56	14.17
17/4/2015	SMI Culture Group Holdings Limited (2366)	3	Nil	1.69	(1.96)	5.91
15/4/2015	Alibaba Health Information Technology Limited (241)	5	2.00	(14.34)	(4.60)	(1.86)
	Maximum	5.00	8.00	16.44	14.56	14.17
	Minimum	2.00	Nil	(43.14)	(42.91)	(43.36)
	Mean	3.38	1.37	(8.41)	(5.79)	(3.01)
	The Convertible Bond	<b>5.00</b>	<b>Nil</b>	<b>(1.05)</b>	<b>0.00</b>	<b>(1.44)</b>

*Source: the website of the Stock Exchange*

*Notes:*

1. The relevant information for transactions of Powerwell Pacific Holdings Limited as announced on 9 November 2015 is excluded from selected samples for the Review Period due to the extremities in value.
2. The relevant information for transactions of Pacific Plywood Holdings Limited as announced on 10 July 2015 is excluded from selected samples for the Review Period due to the extremities in value.

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## LETTER FROM MESSIS CAPITAL

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### *Conversion price*

The premium/discount represented by the conversion price per conversion share issued by respective CB Comparables to their respective closing prices prior to the release of the relevant announcements ranged from a discount of approximately 43.14% to a premium of approximately 16.44% with an average of discount of approximately 8.41%. In addition, the premium/discount represented by the conversion price per conversion share issued by respective CB Comparables to their respective average closing prices for the last five consecutive trading days prior to the release of the relevant announcements ranged from a discount of approximately 42.91% to a premium of approximately 14.56% with an average of discount of approximately 5.79%. Furthermore, the premium/discount represented by the conversion price per conversion share issued by respective CB comparables to their respective average closing prices for the last ten conservative trading days prior to the release of the relevant announcements ranged from a discount of approximately 43.36% to a premium of approximately 14.17% with an average of discount of approximately 3.01%.

The Conversion Price, which is equivalent to the average closing price for the last 5 consecutive trading days prior to the release of the Announcement up to and including the Last Trading Day and represents slight discounts to (i) the closing price of the Shares as at the last trading day prior to the release of the Announcement up to and including the Last Trading Day; and (ii) the average closing price for the last 10 consecutive trading days prior to the release of the Announcement up to and including the Last Trading Day, falls within the range of the CS Comparables and is hence in line with the market practice.

### *Maturity and interest rate of the Convertible Bond*

We note that the maturity term of the Convertible Bond of approximately 5 years is within the range of those of the CB Comparables (i.e. 2 to 5 years). We consider the maturity term of the Convertible Bond is in line with that of the CB Comparables. We also note that the Convertible Bond is interest-free which is at the low end of the range of interest rate for the CB Comparables from 0.00% to 8.00% per annum.

On the basis that both the Conversion Price, the maturity date and the interest rate attached to the Convertible Bond are in line with the recent market practice, we are of the view that the key terms of the Convertible Bond is fair and reasonable and the Convertible Bond are to be issued on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM MESSIS CAPITAL

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### 5. Potential dilution effect on the shareholding of the existing Shareholders

The following table sets out, for illustration purpose only, the shareholding structure of the Company's (a) as at the Latest Practicable Date; (b) immediately after the allotment and issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company); and (c) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming that there is no other change in the issued share capital of the Company).

Name of the Shareholders	As at the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares (assuming no Conversion Shares have been allotted and issued)		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares (assuming all the Conversion Shares have been allotted and issued upon exercise of the Conversion Rights)	
	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	Approx. %
Mr. Wang and his associate(s) <i>(Note 1)</i>	216,235,817	18.94	394,239,983	29.88	488,382,004	34.55 <i>(Note 2)</i>
Other public shareholders	925,244,551	81.06	925,244,551	70.12	925,244,551	65.45
<b>Total</b>	<b>1,141,480,368</b>	<b>100.00</b>	<b>1,319,484,534</b>	<b>100.00</b>	<b>1,413,626,555</b>	<b>100.00</b>

*Notes:*

- Mr. Wang directly holds 198,442,067 Shares and indirectly holds the remaining 18,118,500 Shares via Jumbo Lane Investments Limited which is wholly owned by Mr. Wang.
- Pursuant to the terms and conditions of the Convertible Bond, the Company shall not be required to issue any Conversion Shares, if, as a result of the relevant exercise of the Conversion Rights the holder of the Conversion Bond and parties acting in concert with it will trigger a mandatory offer obligation under the Takeovers Code. Thus, the scenario with the shareholding of Mr. Wang and his associate over 30% is only for illustration purpose and it will not happen.

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## LETTER FROM MESSIS CAPITAL

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As demonstrated by the table above, upon the allotment and issue of the Consideration Shares, the shareholding interests of the existing public Shareholders will be diluted from approximately 81.06% to approximately 70.12%. Further, assuming full conversion of the Convertible Bond, the shareholding interests of the public Shareholders will eventually be diluted to approximately 65.45%. Taking into account (i) the reasons for and potential benefits of the Acquisition as discussed above; (ii) that the terms of the Agreement (as supplemented), including but not limited to the terms of the Consideration Shares and the Convertible Bond, are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) that the issue of Consideration Shares and Convertible Bond allows the Group to pursue the Acquisition without significant cash outlay, we consider the potential dilution on the shareholdings of the existing public Shareholders upon Completion to be acceptable in this regard.

### ***Possible financial effects of the Acquisition***

#### *Assets, liabilities and net assets value*

Upon Completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and, accordingly, all assets and liabilities of the Target Company will be consolidated into that of the Group. The assets of the Group will be increased due to the acquisition of the Target Group, of which its assets mainly comprises of the land use right of the PRC Land and PRC Properties. The liabilities is also expected to be increased upon Completion because of the consolidation of the liabilities of the Target Group and the issuance of Convertible Bond.

#### *Earnings*

Following the Acquisition, the Target Company will become a wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated to the Group's accounts. The Directors consider that the aforementioned vertical integration arisen from the Acquisition will have no overall material negative financial impact of the profitability of the Group as a whole.

#### *Liquidity*

The Directors confirmed that given that the Acquisition does not involve any cash consideration and the total expenses associated with the entering into of the Agreement (as supplemented) are immaterial, the Acquisition would not lead to any immediate material change in the Group's liquidity position.

It should be noted that the aforementioned analyses are for illustration purposes only and do not purport to represent how the financial position of the Group will be upon Completion.



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## LETTER FROM MESSIS CAPITAL

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### RECOMMENDATION

Although the Acquisition is not in the ordinary and usual course of business of the Company, having taken into consideration of the above principal factors and reasons, in particular:

- (i) the background information of the Group and the Target Company;
- (ii) the reasons for and the benefits of the Acquisition;
- (iii) the principal terms of the Acquisition, the Consideration Shares and the Convertible Bond;
- (iv) the dilution effect on the shareholding of the existing Shareholders; and
- (v) the possible financial effects of the Acquisition;

we are of the view that the Agreement (as supplemented) is on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement (as supplemented) and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Messis Capital Limited**

**Vincent Cheung**  
*Director*

*Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of MESSIS CAPITAL LIMITED to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 8 years of experience in corporate finance industry.*

*The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 September 2015 of the property located in the PRC.*

## BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33<sup>rd</sup> Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6-8號瑞安中心33樓

Tel 電話：(852) 2802 2191 Fax 傳真：(852) 2802 0863

Email 電郵：info@bmintelligence.com Website 網址：www.bmi-appraisals.com

17 November 2015

The Directors

**China CBM Group Limited**

Room 910B, 9/F, East Wing

Tsim Sha Tsui Centre

66 Mody Road

Tsim Sha Tsui East

Kowloon

Hong Kong

Dear Sirs,

### INSTRUCTIONS

We refer to the instructions from China CBM Group Limited (the “**Company**”) for us to value the property held by Nuoxin (Xian County) Engineering Materials Company Limited (the “**Target Company**”) located in the People’s Republic of China (the “**PRC**”). We confirm that we have performed an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 30 September 2015 (the “**valuation date**”).

### BASIS OF VALUATION

Our valuation of the concerned property has been based on the Market Value, which is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

**VALUATION METHODOLOGY**

In valuing the property, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement”. This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of value for assets without a known used market. This opinion of value is subject to adequate profitability of the business compared to the value of the total assets employed.

**TITLE INVESTIGATION**

We have been provided with copies of title documents and have been advised by the Company that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuation, we have relied upon the advice and information given by the Company’s PRC legal advisor — Tianjin Tianzheng Law Office (天津天正律師事務所) regarding the title of the property located in the PRC. All documents have been used for reference only.

**VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the property is sold in the market in its existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the value of the property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the property and no forced sale situation in any manner is assumed in our valuation.

**VALUATION CONSIDERATIONS**

The property was inspected by Mr. Tino Au Yeung (BA in Combined Studies (Mathematics and Economics)) in September 2015. We have inspected the property externally and where possible, the interior of the property. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made. We are, therefore, unable to report whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuation, we have relied to a considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the property and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the property but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our valuation has been prepared under the generally accepted valuation procedures and is in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

## **REMARKS**

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,  
For and on behalf of  
**BMI APPRAISALS LIMITED**  
**Joannau W. F. Chan**  
*BSc., MSc., MRICS, MHKIS, RPS(GP)*  
**Senior Director**

*Note:*

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 22 years' experience in valuations of properties in Hong Kong and over 16 years' experience in valuations of properties in the People's Republic of China.

## SUMMARY OF VALUE

<b>Property</b>	<b>Market Value in existing state as at 30 September 2015 RMB</b>
A land parcel, various buildings and structures located at Water Buffalo Shop (Eastern section of the National Highway 106 (previously the Shanglin Brickfield)), Shanglin Village, Xian Town, Cangzhou City, Hebei Province, The PRC	48,500,000
位於中國河北省滄州市 獻縣商林鄉水牛店(106國道東側、原商林磚廠) 之土地及多幢建築物及構築物	
<b>Total:</b>	<b>48,500,000</b>

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2015 <i>RMB</i>
A land parcel, various buildings and structures located at Water Buffalo Shop (Eastern section of the National Highway 106 (previously the Shanglin Brickfield)), Shanglin Village, Xian Town, Cangzhou City, Hebei Province, The PRC	The property comprises a land parcel with a site area of approximately 73,467 sq.m. together with 9 buildings and various structures completed in various stages between 2008 and 2014 erected thereon.	The property is occupied by the Target Company for industrial use.	48,500,000
位於中國河北省滄州市 獻縣商林鄉水牛店 (106 國道東側、 原商林磚廠) 之土地及 多幢建築物及 構築物	The total gross floor area ("GFA") of the buildings is approximately 18,161.04 sq.m.	The land use rights of the property have been granted for a term expiring on 19 November 2057 for industrial use.	

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate, Xian Guo Yong (2007) Di No. 241, the land use rights of the property with a site area of approximately 73,467 sq.m. have been granted to Nuoxin (Xian County) Engineering Materials Company Limited (i.e. the Target Company) for a term expiring on 19 November 2057 for industrial use.
2. Pursuant to 4 Building Ownership Certificates, Xian Xian Fang Quan Zheng Xian Zi Di Nos. 0013921, 0013922, 0013923 and 0013924, the building ownership rights of 9 buildings of the property with a total GFA of approximately 18,161.04 sq.m. are legally owned by the Target Company.
3. The opinion of the PRC legal advisor, namely Tianjin Tianzheng Law Office (天津天正律師事務所), to the Company contains, inter alia, the following:
  - a. The land use rights and building ownership rights of the property are legally vested in the Target Company and the Target Company is entitled to occupy, use, transfer, lease, mortgage and dispose of the property freely in the market; and
  - b. The property is not subject to any seizures, freeze, other kinds of limitations of estate interest, existence of the third party's interest or non-compliance of the PRC laws regarding the use of the property.

*The following is the text of a report prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 July 2015 of the market value of the 100% equity interest in Nuoxin (Xian County) Engineering Materials Company Limited.*

## **BMI** APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33<sup>rd</sup> Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong

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Email 電郵：info@bmintelligence.com Website 網址：www.bmi-appraisals.com

17 November 2015

The Directors

**China CBM Group Company Limited**

Room 910B, 9/F, East Wing

Tsim Sha Tsui Centre

66 Mody Road

Tsim Sha Tsui East

Kowloon

Hong Kong

Dear Sirs,

### **INSTRUCTIONS**

We refer to the instructions from China CBM Group Company Limited (referred to as the “**Company**”) for us to provide our opinion on the market value of the 100% equity interest in Nuoxin (Xian County) Engineering Materials Company Limited (referred to as “**Target Company**”) as at 31 July 2015.

Our valuation has been prepared in accordance to the International Valuation Standards issued by the International Valuation Standards Council.

This report presents the basis of valuation, the background of the Target Company, an industry overview, the source of information, the scope of work and the valuation assumptions. It also explains the valuation methodologies utilized and presents our conclusion of value.

**BASIS OF VALUATION**

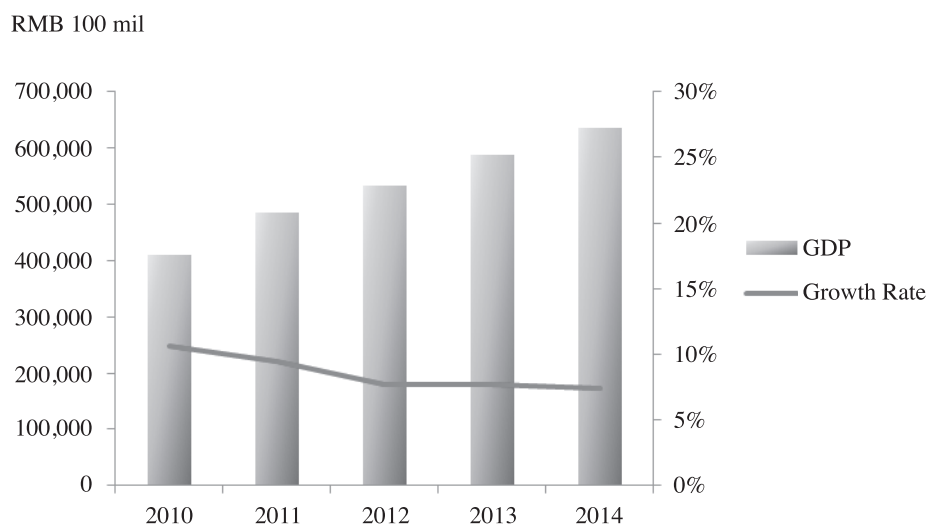
Our valuation has been carried out on the basis of market value. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

**BACKGROUND OF THE TARGET COMPANY**

The Target Company was established as a limited liability company in the People’s Republic of China (referred to as the “PRC”) on 23 October 2007 with a registered capital of approximately RMB47.56 million. The principal business of the Target Company is manufacture and sale of polyethylene pipe and methane exhauster, and it also engaged in the manufacture of structural metal profiles, mining machinery, road roller and cranes (over 50 tons).

**INDUSTRY OVERVIEW****The PRC Economy**

The national economy of the PRC maintained stable growth in 2014. The gross domestic product (GDP) of the year was RMB63,646.3 billion, up by 7.4% over the previous year. Of this total, the value added of the primary industry was RMB5,833.2 billion, up by 4.1%, that of the secondary industry was RMB27,139.2 billion, up by 7.3% and the tertiary industry was RMB30,673.9 billion, up by 8.1%. The value added of the primary industry accounted for 9.2% of the GDP, that of the secondary industry accounted for 42.6%, and that of the tertiary industry accounted for 48.2%.

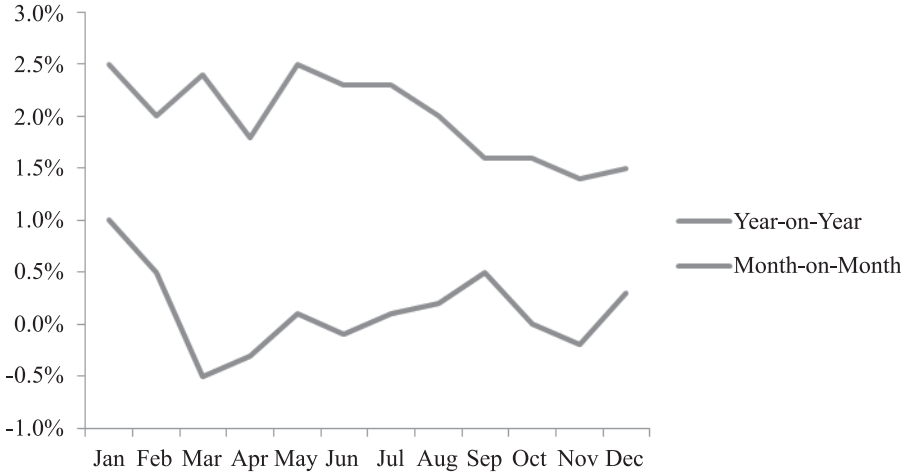
**Gross Domestic Product, 2010-2014**

Source: National Bureau Statistics of China



The consumer prices increased slightly. The consumer prices in 2014 went up by 2.0% over the previous year. Of this total, the prices for food went up by 3.1%. The prices for investment in fixed assets increased by 0.5%. The producer prices and the purchasing prices for manufactured goods were down by 1.9% and 2.2% respectively. The producer prices for farm products were down by 0.2%.

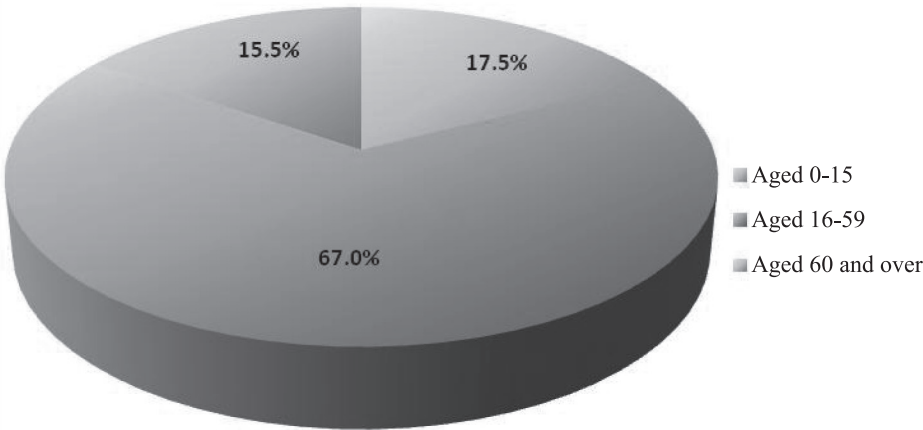
Monthly Changes in Consumer Prices, 2014



Source: National Bureau Statistics of China

By the end of 2014, the total number of Chinese population at the mainland reached 1,367.82 million, an increase of 7.10 million over that at the end of 2013. Of this total, urban permanent residents numbered 749.16 million, accounting for 54.77%. The year 2014 saw 16.87 million births, a crude birth rate of 12.37 per thousand, and 9.77 million deaths, or a crude death rate of 7.16 per thousand. The natural growth rate was 5.21 per thousand. The number of population who lived in places other than their household registration reached 298 million, of which 253 million were floating population.

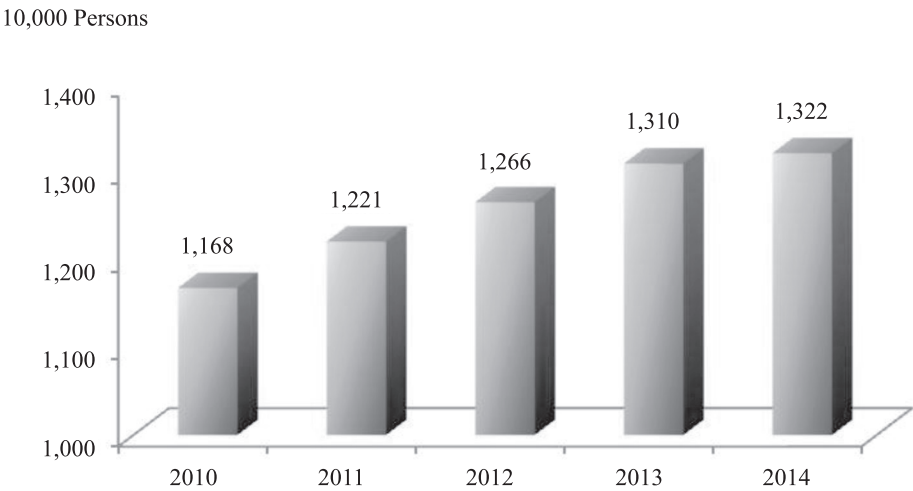
Population Age Composition, 2014



Source: National Bureau Statistics of China

The employment continued to grow. At the end of 2014, the number of employed people in the PRC was 772.53 million, and that in urban areas was 393.10 million. The newly increased employed people in urban areas numbered 13.22 million. The registered urban unemployment rate was 4.09% at the year end. The total number of migrant workers in 2014 was 273.95 million, up by 1.9% over that of 2013. Of which, the migrant workers who left hometown and worked in other places were 168.21 million, increased by 1.3%, and those who worked in their own localities reached 105.74 million, up by 2.8%.

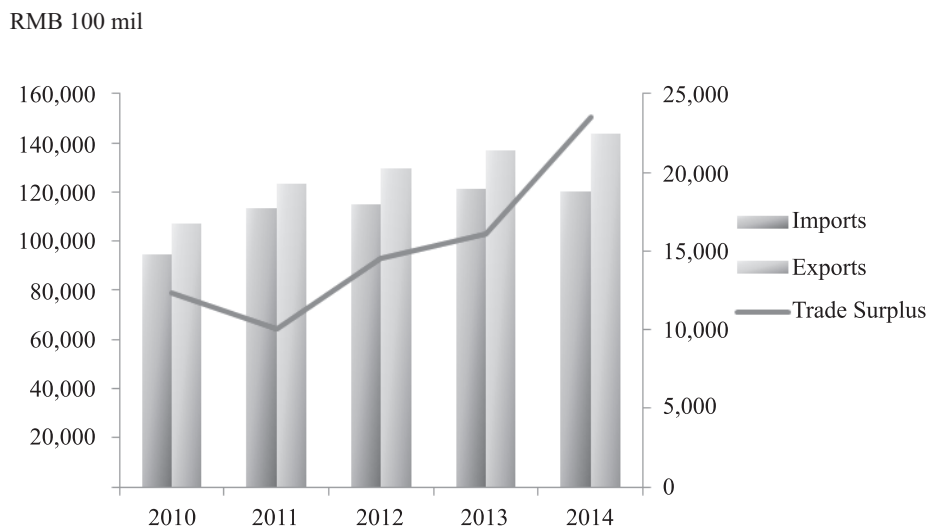
Newly Increased Employed People in Urban Areas, 2010-2014



Source: National Bureau Statistics of China

The total value of imports and exports of goods in 2014 reached RMB26,433.4 billion, up by 2.3% over the previous year. Of this total, the value of goods exported was RMB14,391.2 billion, increased by 4.9%, and the value of goods imported was RMB12,042.3 billion, up by 0.6%. The balance of imports and exports (exports minus imports) was RMB2,348.9 billion, an increase of RMB739.5 billion over the previous year.

### Imports and Exports of Goods, 2014



Source: National Bureau Statistics of China

### Global Plastic Pipe Industry

There are many common types of plastic pipe such as ABS (Acrylonitrile Butadiene Styrene), PP (Polypropylene), PE (Polyethylene) (also known as LDPE and HDPE with low and high density respectively), PVC (Polyvinyl Chloride), PVDF (Polyvinylidene Fluoride) and so on. They are mainly used in the areas of sewage, drinking/potable water and gas supply, cable protection as well as agriculture and industry.

The advantages of plastic pipes compared to pipes made of other materials such as aluminium, concrete, cast iron, copper, and steel are that plastic pipes have lower weight, cost, thermal conductivity and friction loss with greater resistance to corrosive effects and chemicals, thus increasing its importance in all application areas. In the plastic pipe industry, PVC remains as the major raw material with an expected market share of more than 55% and the second most popular material is PE, HDPE in particular.

The major market for plastic pipes is the Asia-Pacific region that accounts for above 50% of total global demand. North America ranks the second and followed by Western Europe. The developing countries in the Asia-Pacific region have already been able to profit from the dynamic development of sales markets for plastic pipes in the past years.

According to World Plastic Pipe, the global demand for plastic pipe is projected to grow 6.5% per annum through 2019 to 20.6 billion meters. The boost in plastic pipe demand is mainly from the large markets like the PRC and the US, particularly in construction activity as plastic pipes are intensively used in both building and non-building applications.

### **The PRC Plastic Pipe Industry**

The PRC has become the world's largest producer and consumer of plastic pipes. The output and demand of plastic pipes reached 12.10 million tons and 11.12 million tons respectively in 2013, representing the respective year-on-year growth of 10.00% and 7.10%. In 2013, the major output of plastic pipes is PVC pipes with 6.59 million tons in the PRC which accounted for 54.5% of the PRC's total plastic pipes output, followed by PE pipes and PP pipes which accounted for 40.5% together.

Municipal water supply and drainage, building water supply and drainage and other fields act as the downstream of the PRC plastic pipe industry. In 2013, the downstream demand accounted for 69.8% of the PRC's total demand for plastic pipes.

According to the China Plastic Pipe Industry Report, most plastic pipe enterprises in the PRC are small-sized while 300 companies achieve the annual capacity of more than 10,000 tons and only about 15 enterprises have the annual capacity of 200,000 tons or above.

### **SOURCE OF INFORMATION**

We have been furnished with information provided by the senior management of the Company. The valuation required the consideration of pertinent factors, including, but not limited to, the following:

- The nature of the Target Company including the industry sector and geographical location;
- The information provided by the senior management of the Target Company; and
- Other factors that will materially affect the operation of the Target Company.

**SCOPE OF WORK**

The following processes have been conducted by us in the course of our valuation:

- Interviewed with the senior management of the Company and obtained information in respect of the Target Company;
- Examined the information provided by the senior management of the Company;
- Prepared the valuation based on accepted valuation procedures and practices; and
- Presented the basis of valuation, the background of the Target Company, an industry overview, the source of information, the scope of work, the valuation assumptions, the valuation methodology and our conclusion of value in this report.

**VALUATION ASSUMPTIONS**

The following assumptions have been adopted in the valuation:

- All licenses issued by any authorized entity that will materially affect the operation of the Target Company have been obtained or can be obtained upon request;
- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where the Target Company operates;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The core operation of the Target Company will not differ materially from those of present or expected;
- The information in respect of the Target Company have been prepared after due and careful consideration by the senior management of the Company; and
- There will be no human disruptions or natural disasters that will materially affect the operation of the Target Company.

**VALUATION METHODOLOGY****The Valuation Approaches**

The following valuation approaches have been considered in the valuation:

1. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset;

2. The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the assets; and
3. The asset based approach provides an indication of value by reasonably evaluating the market value of each asset and liability of the company and summing them up.

The income approach is mainly applicable to the companies for which relatively reasonable and reliable estimation of expected future profit can be made. Proper consideration should be taken over the applicability of income approach with reference to the historical operation, predictability of future profit and the availability of information used for valuation. The Target Company was loss-making as per the financial statements of the last 2 financial years ended 31 December 2013 and 2014, and the period ended 31 July 2015. As confirmed by the senior management of the Company, the financial forecast of the Target Company is not available. Therefore, the income approach was not adopted.

As there are insufficient recent equity transactions with similar nature of the Target Company such as operating business, product segment, geographic location and market capitalization, it was difficult to obtain sufficient comparable transactions that were relevant, reliable and accurate. Therefore, the market approach was not adopted.

The asset based approach is generally applied to newly established companies or a company that is unable to conduct effective assessment by using income approach or market approach. Therefore, we have selected the asset based approach. The major assets of the Target Company under valuation were the inventories, fixed assets and land use rights. In the course of applying the asset-based approach, there exist relevant data and information as a basis and reference for the selection of economical and technical reference variables involved in valuing the various assets.

### **Current Assets and Liabilities**

We have adopted the book values of current assets and liabilities except the inventories as at 31 July 2015 as their fair values. We have assumed that there exist no material difference between the book values and the fair values of the current assets and liabilities except the inventories.

**The Inventories**

We have relied on the information provided by the Company that the inventories existed as at the date of valuation. In addition, our valuation has been prepared based upon the assumption of the inventories were freely transferable in the market and there exist no obsolete items in the inventories.

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowances for relevant obsolescence if appropriate.

**The Machineries and Equipment**

For valuations of the machineries and equipment, we have considered two generally accepted approaches to ascertain the market values, namely market approach and cost approach.

The market approach considers sales prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect the conditions and utilities of the appraised assets relative to their market comparables. The values of assets for which there are established secondhand market comparables may be appraised by this approach.

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowances for accrued depreciation arising from condition, utility, age, wear and tear, and/or obsolescence present (physical, functional and/or economic), taking into consideration the past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of the values of assets in the absence of a known market based on comparable sales.

**The Land and Properties**

In valuing the properties, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement”. This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value is subject to adequate profitability of the business compared to the value of the total assets employed.

In our valuation, the land use rights held by the Target Company was presented as the only intangible assets on the balance sheet.

**REMARKS**

For the purpose of our valuation, we have been furnished with information provided by the senior management of the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made or liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating our analysis.

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB).

**CONCLUSION OF VALUE**

Our conclusion of value is based on accepted valuation procedures and practices that rely on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to uncertainties and contingencies that are beyond the control of the Company, the Target Company or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the 100% equity interest in the Target Company as at 31 July 2015 was **RMB50,300,000 (RENMINBI FIFTY MILLION AND THREE HUNDRED THOUSAND ONLY)**.



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**APPENDIX II****VALUATION REPORT OF  
THE TARGET COMPANY**

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The market values of the assets and liabilities of the Target Company as at 31 July 2015 were as follows:

	<b>Book Value</b> <i>(RMB)</i>	<b>Market Value</b> <i>(RMB)</i>
<b>Current assets:</b>		
Cash and bank balances	3,286	3,286
Accounts receivables	966,129	966,129
Deposits, prepayments and other receivables	530,508	530,508
Inventories	3,532,969	2,125,654
	<hr/>	<hr/>
Total current assets	5,032,892	3,625,577
	<hr/>	<hr/>
<b>Non-current assets:</b>		
Property, plant and equipment	24,592,200	38,771,680
Construction in progress	666,244	660,000
Intangible assets — land use rights	3,723,312	12,220,000
Other non-current assets	1,395,922	1,395,922
	<hr/>	<hr/>
Total Non-Current Assets	30,377,678	53,047,602
	<hr/>	<hr/>
<b>Total assets:</b>	<b>35,410,570</b>	<b>56,673,179</b>
	<hr/>	<hr/>
<b>Current liabilities:</b>		
Trade payables	63,770	63,770
Deposits received, sundry creditors and accruals	6,301,346	6,301,346
Payroll payable	30,439	30,439
Tax payable	(31,074)	(31,074)
	<hr/>	<hr/>
Total Current Liabilities	6,364,481	6,364,481
	<hr/>	<hr/>
<b>Total Liabilities:</b>	<b>6,364,481</b>	<b>6,364,481</b>
	<hr/>	<hr/>
<b>Net asset value</b>	<b>29,046,089</b>	<b>50,308,698</b>
	<hr/> <hr/>	<hr/> <hr/>

We hereby certify that we have neither present nor prospective interest in the Company, the Target Company or the results reported.

Yours faithfully,  
For and on behalf of  
**BMI APPRAISALS LIMITED**

**Marco T. C. Sze**

*B.Eng(Hon), PGD(Eng), MBA(Acct),*

*CFA, AICPA/ABV, RBV, CIM*

*Director*

**Dr Tony C. H. Cheng**

*BSc(Bldg), MUD, MBA(Finance), MSc.(Eng), PhD(Econ),*

*FSOE, FIPlantE, CEnv, MIPA, CPA UK, SIFM, FCIM,*

*MCIArb, MASCE, MIET, MIEEE, MASME, MIE*

*Managing Director*

*Note:*

- 1. Mr. Marco T. C. Sze is a Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum and a member of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). He has extensive experience in valuing similar assets as that of the Target Company worldwide.*
- 2. Dr. Tony C. H. Cheng has various engineering and accounting & finance qualifications. He is currently the Chairman of the Institute of Mechanical Engineers, China. He is also a Fellow member of the Society of Operations Engineers and the Institution of Plant Engineers, and a member of the Institute of Industrial Engineers and the American Society of Mechanical Engineers. Besides, Dr. Cheng is a member of the Institute of Public Accountants. He has extensive experience in valuing similar assets in different industries in Hong Kong and the PRC.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

#### (i) Long positions in the Shares and the underlying shares

Name	Capacity	Nature of Interest	Number of ordinary shares/ underlying shares	Approximate % of shareholdings
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 <i>(Note 1)</i>	1.59%
	Beneficial owner	Personal	198,442,067 <i>(Note 2)</i>	17.38%
Mr. Fu Shou Gang	Beneficial Owner	Personal	324,750 <i>(Note 3)</i>	0.03%

*Notes:*

1. Such shares are owned by Jumbo Lane Investments Limited. Mr. Wang Zhong Sheng owns 100% interest in the issued share capital of Jumbo Lane Investments Limited and he is taken to be interested in the shares owned by Jumbo Lane Investments Limited pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
2. Out of the 198,442,067 long positions, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 324,750 shares under the share option scheme adopted by the Company on 18 May 2011; (ii) a beneficial owner of 198,117,317 issued shares of the Company.
3. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 324,750 shares under the share option scheme adopted by the Company on 18 May 2011.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Number of Shares	Nature of Interest	Approximate percentage of shareholding
Ms. Zhao Xin ( <i>Note</i> )	216,560,567	Interest of spouse	18.97%
RHB OSK Finance Hong Kong Limited	197,366,867	Person having a security interest	17.29%

*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 the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**3. SHARE CAPITAL**

<i>Authorised</i>	<i>HK\$</i>
20,000,000,000 Shares	200,000,000
<i>Issued and to be issued, fully paid or credited as fully paid</i>	
1,141,480,368 Shares in issue as at the Latest Practicable Date	11,414,803.68
178,004,166 Consideration Shares to be allotted and issued	1,780,041.66
94,142,021 Conversion Shares to be allotted and issued pursuant to the conversion of the Convertible Bonds	941,420.21
1,413,626,555 Shares	14,136,265.55

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

**5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

**6. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**7. INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, save for Mr. Wang's interest in the Agreement (as supplemented), no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

Save for Mr. Wang's interest in the Acquisition, none of the Directors nor expert referred to in paragraph 9 below has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2014, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

**8. MISCELLANEOUS**

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is Room 910B, 9/F., East Wing, Tsim Sha Tsui Centre, 66 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

- (c) The branch share registrar and transfer office in Hong Kong of the Company is Tricor Tengis Limited located at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Lui Chi Keung, who has been appointed as the company secretary and authorised representative of the Company since September 2007. Mr. Lui is a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Association of Chartered Certified Accountants. Mr. Lui has over 30 years of experience in auditing, accounting, financial and business management.

## 9. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Messis Capital	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
天津天正 律師事務所 (Tianjin Tianzheng Law Office)	Legal advisers as to the PRC laws
BMI Appraisals Limited	Independent valuer

As at the Latest Practicable Date, each of the above named experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the above named experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interests, directly or indirectly, in any assets which have been, since 31 December 2014, being the date to which the latest published audited financial statements of the Group were made up, acquired, disposed of or leased to any member of the Group, or were proposed to be acquired, disposed of or leased to any member of the Group.

## 10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2014, the date to which the latest published audited financial statements of the Group were made up.

**11. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room 910B, 9/F., East Wing, Tsim Sha Tsui Centre, 66 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of SGM:

- (a) the memorandum of continuance of the Company and the bye-laws of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2012, 2013 and 2014 and the interim report of the Company for the six months ended 30 June 2015;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from Messis Capital, the text of which is set out in this circular; and
- (e) the consent letter of Messis Capital referred to in the paragraph headed “Expert and Consent” in this Appendix;
- (f) the Agreement;
- (g) the Supplemental Agreement;
- (h) the valuation report of the PRC Properties and the PRC Land;
- (i) the valuation report of the Target Company; and
- (j) this circular.



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## NOTICE OF SGM

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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)

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of China CBM Group Company Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) will be held at Conference Room, Yixian Scientific and Industrial Zone, 2 Cuiming Road, Wuqing Development Area, Tianjin, PRC on 3 December 2015 (Thursday) at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as an ordinary resolution:

#### ORDINARY RESOLUTION

“**THAT**

- (a) the conditional sale and purchase agreement dated 12 October 2015 (the “**Agreement**”) (as supplemented by the supplemental sale and purchase agreement dated 6 November 2015) and entered into between Mr. Wang Zhong Sheng as vendor (the “**Vendor**” or “**Mr. Wang**”) and 山西陽城順泰能源發展有限公司 (Shanxi Province Yangcheng County Shuntai Energy Development Co., Ltd), a wholly owned subsidiary of the Company as purchaser (the “**Purchaser**” or “**Shanxi Yangcheng**”), pursuant to which, among other things, the Vendor shall sell and the Purchaser shall acquire (the “**Acquisition**”) the entire issued equity interest in 諾信(獻縣)機械工程材料有限公司 (Nuoxin (Xian County) Engineering Materials Company Limited\*) (the “**Target Company**”) (a copy of which has been produced to the Meeting marked “A” and initialed by the Chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares (as defined below) and the issue of the Convertible Bonds (as defined below) and the issue and allotment of the Conversion Shares (as defined below)) be and are hereby approved, confirmed and ratified;
- (b) the issue of the convertible bonds (the “**Convertible Bonds**”) in the principal amount of HK\$21,238,440 by the Company to the Vendor (or at his direction) to settle part of the consideration payable by the Purchaser under the Agreement in accordance with the terms and conditions of the Agreement and all transactions contemplated be and is hereby approved, confirmed and ratified;
- (c) the allotment and issue of new ordinary shares of HK\$0.01 each (the “**Conversion Shares**”) in the share capital of the Company at the initial conversion price of HK\$0.2256 per Conversion Share which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds to the relevant holder(s) of the Convertible Bonds be and are hereby approved, confirmed and ratified;

\* For identification purpose only

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## NOTICE OF SGM

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- (d) the allotment and issue of 178,004,166 new ordinary shares of HK\$0.01 each (the “**Consideration Shares**”) at the issue price of approximately HK\$0.2256 per Consideration Share by the Company to the Vendor (or at his direction) to settle part of the consideration payable by the Purchaser under the Agreement in accordance with the terms and conditions of the Agreement and all transactions contemplated be and is hereby approved, confirmed and ratified;
- (e) subject to The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares to be allotted and issued, the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot and issue the Consideration Shares and the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds pursuant to the Agreement. The Specific Mandate is in addition to, and shall not prejudice nor revoke any existing or such other general or special mandates which may from time to time be granted to the Directors prior to passing of this resolution; and
- (f) any of the Director be and is hereby authorised to do all such further acts and things, negotiate, approve, agree, sign, initial, ratify and/or execute such further documents, instruments and agreements (whether under common seal or not) and to take all steps and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Agreement (as supplemented) and the transactions contemplated thereunder as he/she may in his/her absolute discretion consider necessary, desirable or expedient to give effect to the Agreement (as supplemented) and the implementation of all transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

By order of the Board  
**China CBM Group Company Limited**  
**Wang Zhong Sheng**  
*Chairman*

Hong Kong, 17 November 2015

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head office and principal place of  
business in Hong Kong:*  
Room 910B, 9/F  
East Wing  
Tsim Sha Tsui Centre  
66 Mody Road  
Tsim Sha Tsui  
Kowloon, Hong Kong

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## NOTICE OF SGM

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*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.