
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any losses howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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)

**(I) PROPOSED SHARE CONSOLIDATION;
(II) OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY ONE (1)
SHARE HELD ON THE RECORD DATE;
(III) CHANGE IN BOARD LOT SIZE; AND
(IV) CONNECTED TRANSACTION: SET-OFF OF THE CONVERTIBLE BONDS**

Underwriter



RHB Securities Hong Kong Limited

Independent Financial Adviser



HOORAY CAPITAL LIMITED

A notice convening a special general meeting (the “SGM”) of the Company to be held on Monday, 18 April 2016 at 9:30 a.m. at Conference Room, No. 2, Tsui Ming Road, Yixian Industrial Zone, Wuqing Development Zone, Tianjin, the People’s Republic of China is set out on pages 99 to 102 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.

CHARACTERISTICS OF GEM

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.

CONTENTS

	<i>Pages</i>
Expected Timetable	1
Definitions	3
Termination of Underwriting Agreement	9
Letter from the Board	11
Letter from the Independent Board Committee	39
Letter from Hooray Capital	41
Appendix I — Financial Information	77
Appendix II — Unaudited pro forma financial information of the Group	80
Appendix III — General information	85
Notice of SGM	99

EXPECTED TIMETABLE

Set out below is the expected timetable of the Open Offer.

2016

Despatch of circular	Tuesday 29 March
Latest date for returning and lodging of proxy form for the SGM.....	9:30 a.m. on Saturday, 16 April
SGM.....	9:30 a.m. on Monday, 18 April
Announcement of results of the SGM	Monday, 18 April
Effective date of Share Consolidation.....	Tuesday, 19 April
First day of free exchange of existing share certificates for new share certificates.....	Tuesday, 19 April
Dealings in New Shares commences.....	9:00 a.m. Tuesday, 19 April
Original counter for trading in the Existing Shares in board lots of 40,000 Shares (in the form of existing share certificates) temporarily closes.....	9:00 a.m., Tuesday, 19 April
Temporary counter for trading in the New Shares in board lots of 4,000 New Shares (in the form of existing share certificates) opens.....	9:00 a.m., Tuesday, 19 April
Last day of dealing in Shares on a cum-entitlement basis.....	Tuesday, 19 April
First day of dealing in Shares on an ex-entitlement basis.....	Wednesday, 20 April
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:30 p.m. on Thursday, 21 April
Register of members of the Company closes (both dates inclusive)	Friday, 22 April to Wednesday, 27 April
Record Date for the Open Offer	Wednesday, 27 April
Register of members for the Shares reopens	Thursday, 28 April
Despatch of Prospectus Documents	Thursday, 28 April

EXPECTED TIMETABLE

Original counter for trading in the New Shares in board lots of 8,000 New Shares (in the form of new share certificates) re-opens	9:00 a.m., Wednesday, 4 May
Parallel trading in New Shares (in the form of new and existing share certificates) commences	9:00 a.m., Wednesday, 4 May
First day of operation of odd lot trading facility	9:00 a.m., Wednesday, 4 May
Latest time for acceptance of and payment for the Offer Shares	4:00 p.m. on Monday, 16 May
Latest time for the Open Offer to become unconditional	4:00 p.m. on Tuesday, 17 May
Announcement of the results of the Open Offer	Monday, 23 May
Share certificates for Offer Shares and refunded cheques to be posted	Tuesday, 24 May
Temporary counter for trading in the New Shares in board lots of 4,000 New Shares closes	4:00 p.m., Tuesday, 24 May
Parallel trading in New Shares in the form of new share certificates and existing share certificates ends	4:00 p.m., Tuesday, 24 May
Last day of operation of odd lot trading facility	4:00 p.m., Tuesday, 24 May
Dealing in Offer Shares commences	9:00 a.m. on Wednesday, 25 May
Latest time for free exchange of share certificates	4:30 p.m., Thursday, 26 May

All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be announced as appropriate.

DEFINITIONS

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

“Announcement”	the announcement issued by the Company dated 7 January 2016 in relation to, among other things, the Open Offer, the change in board lot size and the Set-off Arrangement
“associates”	has the meaning ascribed to this term under the GEM Listing Rules
“Application Form(s)”	the form(s) of application to be used by the Qualifying Shareholders to apply for the Offer Shares in the agreed form
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 40,000 Existing Shares to 8,000 New Shares
“Companies (WUMP) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
“Company”	China CBM Group Company Limited, a company incorporated in the Cayman Islands and continued in the Bermuda with limited liability and the issued Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed to this term under the GEM Listing Rules
“Convertible Bonds”	the outstanding zero-coupon convertible bonds in the principal amount of HK\$21,238,440 issued by the Company to Mr. Wang and convertible up to 94,142,021 conversion Existing Shares at the conversion price of HK\$0.2256 per conversion Existing Share which will matured on the fifth anniversary of its date of issuance

DEFINITIONS

“Director(s)”	director(s) of the Company
“Existing Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company prior to the effective of the Share Consolidation
“GEM”	the 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
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a committee of the Board (comprising Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He, all being independent non-executive Directors) established to advise the Independent Shareholders on the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement
“Independent Financial Adviser” or “Hooray Capital”	Hooray Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole and advise the Independent Shareholders on how to vote at the SGM
“Independent Shareholders”	Shareholders other than the Directors (including Mr. Wang and excluding the independent non-executive Directors), the chief executive of the Company and their respective associates
“Independent Third Party/(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Last Trading Day”	7 January 2016, being the last trading day for the Shares before the entering into of the Underwriting Agreement

DEFINITIONS

“Latest Lodging Date”	4:30 p.m. on Thursday, 21 April 2016 as the latest time for lodging transfer of Shares in order to qualify for the Open Offer
“Latest Practicable Date”	23 March 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on Monday, 16 May 2016 or such later time or date as may be agreed between the Company and RHB Securities, being the latest time for acceptance of, and payment for, the Offer Shares
“Latest Time for Termination”	4:00 p.m. on the next Business Day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and RHB Securities, being the latest time to terminate the Underwriting Agreement
“Mr. Wang”	Mr. Wang Zhong Sheng, the Chairman and an executive Director of the Company and a substantial Shareholder within the meaning of the GEM Listing Rules
“New Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company after the Share Consolidation having become effective
“Offer Share(s)”	not less than 3,958,453,602 Existing Shares and not more than 4,053,836,574 Existing Shares (or not less than 395,845,359 New Shares and not more than 405,383,652 New Shares if the Share Consolidation has become effective) proposed to be allotted and issued to the Qualifying Shareholders pursuant to the Open Offer
“Open Offer”	the proposed issue of the Offer Shares by way of open offer to the Qualifying Shareholders for subscription on the basis of three (3) Offer Shares for every one (1) Share held on the Record Date and payable at the Subscription Price in full on application in accordance with the terms to be set out in the Prospectus Documents and summarised herein
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer

DEFINITIONS

“Overseas Shareholder(s)”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
“PRC”	the People’s Republic of China
“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires with its legal adviser(s), considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to such Overseas Shareholder(s)
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form in respect of the assured allotment of Offer Shares
“Prospectus Posting Date”	28 April 2016 or such later date as may be agreed between RHB Securities and the Company for the despatch of the Prospectus Documents
“Qualifying Shareholders”	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	Wednesday, 27 April 2016, being the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong
“RHB Securities” or “Underwriter”	RHB Securities Hong Kong Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) and type 4 regulated activity (advising on securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Set-off Arrangement”	the proposed arrangement to set-off of part of the Subscription Price payable by Mr. Wang and his associates under the Open Offer against the Convertible Bonds

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened and held for the Shareholders and the Independent Shareholders (as the case may be) to consider and approve the Share Consolidation, the Open Offer, the Set-off Arrangement and the transactions contemplated thereunder
“Share(s)”	Existing Share(s) and/or New Share(s), as the case may be
“Shareholder(s)”	holder(s) of the issued Share(s)
“Share Consolidation”	the proposed consolidation of every ten (10) issued Existing Shares of par value of HK\$0.01 each in the issued and unissued share capital of the Company into one (1) New Share of HK\$0.10 each in the issued and unissued share capital of the Company
“Share Option(s)”	the share option(s) granted under the Share Option Scheme which amounted to a maximum of 32,119,074 new Existing Shares (or 3,211,906 New Shares if the Share Consolidation has become effective) to be allotted and issued upon the exercise of the outstanding 32,119,074 share options
“Share Option Scheme”	the share option scheme adopted by the Company on 18 May 2011
“Specified Event”	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.035 per Existing Share (or HK\$0.35 per New Share)
“Supplemental Underwriting Agreement”	the supplemental underwriting agreement dated 15 March 2016 entered into between the Company and the Underwriter to supplement and amend certain terms of the Underwriting Agreement

DEFINITIONS

“Takeovers Code”	The Codes of Takeovers and Mergers and Share Buy-backs
“Underwriting Agreement”	the conditional underwriting agreement dated 7 January 2016 (as amended and supplemented by the Supplemental Underwriting Agreement) entered into between the Company and RHB Securities in relation to the Open Offer
“Underwritten Shares”	all the Offer Shares except those to be taken up by Mr. Wang and/or his associates under the Wang’s Undertaking, being not less than 2,775,733,653 Offer Shares and not more than 2,871,116,625 Offer Shares (or not less than 277,573,365 Offer Shares and not more than 287,111,658 Offer Shares if the Share Consolidation has become effective) underwritten by the Underwriter
“Wang’s Undertaking”	the irrevocable undertaking given by Mr. Wang in favour of the Company and RHB Securities with respect to the Underwriting Agreement, among others, (i) to take up in full his entitlements under the Open Offer to subscribe for or procure subscription for an aggregate of 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective); (ii) to settle the Subscription Price by way of Set-off Arrangement; and (iii) not convert all or part of the Convertible Bonds and exercise any of the 324,750 Share Options held by him from the date of the Underwriting Agreement to the close of business on the Record Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

TERMINATION OF UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the absolute opinion of RHB Securities, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of RHB Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of RHB Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of RHB Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of RHB Securities will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

TERMINATION OF UNDERWRITING AGREEMENT

- (5) any material adverse change in the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) the Prospectus Documents in connection with the Open Offer when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of RHB Securities is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer; or
- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement, the circular (together with the notice convening the SGM and the form of proxy) to be despatched to the Shareholders or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (8) any indication from the Stock Exchange and/or other regulators that any Shareholders and/or the Underwriter and/or any subscriber(s) or purchaser(s) of the Untaken Shares procured by the RHB Securities will be obliged to make a general offer for Shares in accordance with the requirement of the Takeovers Code; or
- (9) any indication from the Stock Exchange and/or other regulators that the Company will not be in compliance with the public float requirements under the GEM Listing Rules as a result of the Open Offer,

RHB Securities shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

RHB Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of RHB Securities; or
- (2) any Specified Event comes to the knowledge of RHB Securities.

Any such notice shall be served by RHB Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

LETTER FROM THE BOARD

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

29 March 2016

To the Shareholders

Dear Sir or Madam,

**(I) PROPOSED SHARE CONSOLIDATION;
(II) OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY ONE (1)
SHARE HELD ON THE RECORD DATE;
(III) CHANGE IN BOARD LOT SIZE; AND
(IV) CONNECTED TRANSACTION: SET-OFF OF THE CONVERTIBLE BONDS**

INTRODUCTION

On 7 January 2016, the Company proposed to raise approximately not less than HK\$119.41 million and not more than HK\$122.74 million (before expenses and after taking into account of the Set-off Arrangement), by issuing not less than 3,958,453,602 new Shares and not more than 4,053,836,574 new Shares at the subscription price of HK\$0.035 per new Share on the basis of three (3) new Shares for every one (1) Share held on the record date and payable in full on application. As Mr. Wang is a connected person of the Company, the Set-off Arrangement constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and is subject to, among others, Independent Shareholders' approval at the SGM.

LETTER FROM THE BOARD

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

In light of the revised expected timetable for the Open Offer and the Share Consolidation, after arm's length negotiations between the Company and the Underwriter, the Company and the Underwriter have on 15 March 2016 (after trading hours) entered into the Supplemental Underwriting Agreement to reflect the change in the revised expected timetable for the Open Offer and to take into consideration of the Share Consolidation.

The purpose of this circular is to provide you with (i) details in relation to, among others, the Open Offer, the Underwriting Agreement, the Set-off Arrangement, the Share Consolidation and the Change in Board Lot Size; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and the Set-off Arrangement; (iii) a letter of advice from Hooray Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement and the Set-off Arrangement; and (iv) a notice convening the SGM.

PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation on the basis that every ten (10) issued and unissued Existing Shares with a par value of HK\$0.01 each will be consolidated into one (1) New Share with a par value of HK\$0.10 each.

As at the Latest Practicable Date, there are 1,319,484,534 Existing Shares of HK\$0.01 each in issue and fully paid or credited as fully paid. Assuming no Existing Shares will be issued or repurchased from the Latest Practicable Date up to the date of the SGM, there will be 131,948,453 New Shares of HK\$0.10 each in issue and fully paid or credited as fully paid following the Share Consolidation becoming effective. The authorised share capital of the Company will become HK\$200,000,000 divided into 2,000,000,000 New Shares of HK\$0.10 each.

Conditions of the Share Consolidation

The implementation of the Share Consolidation is conditional upon:

- (i) the passing of the necessary ordinary resolution by the Shareholders at the SGM to approve the Share Consolidation;

LETTER FROM THE BOARD

- (ii) the passing of the necessary ordinary resolution by the Shareholders at the SGM to approve the Open Offer;
- (iii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares to be in issue upon the Share Consolidation becoming effective; and
- (iv) the compliance with all relevant procedures and requirements under the Companies Act 1981 of Bermuda to effect the Share Consolidation.

Status of the New Shares

Upon the Share Consolidation becoming effective, the New Shares shall rank *pari passu* in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders.

Listing application

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares to be in issue upon the Share Consolidation becoming effective. All necessary arrangements will be made for the New Shares to be admitted into CCASS.

Other than the expenses to be incurred by the Company in relation to the Share Consolidation and the Change in Board Lot Size, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the proportionate interests or rights of the Shareholders as a whole, save for any fractional New Share to which may arise.

PROPOSED CHANGE IN BOARD LOT SIZE

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

Based on the closing price of HK\$0.078 per Existing Share (equivalent to HK\$0.78 per New Share) as quoted on the Stock Exchange as at the Latest Practicable Date, the board lot value is HK\$3,120 in the current board lot size of 40,000 Existing Shares, and HK\$6,240 in the proposed new board lot size of 8,000 New Shares.

The Change in Board Lot Size will not, by itself, affect any of the rights of Shareholder. As from Tuesday, 19 April 2016, any new share certificate will be issued in board lots of 8,000 New Shares each (except for odd lots or where the Registrar is otherwise instructed).

LETTER FROM THE BOARD

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the New Shares and the Change in Board Lot Size, the Company has appointed RHB Securities as an agent to provide matching services on a best effort basis for sale and purchase of odd lots of New Shares at the relevant market price per New Share, to those Shareholders who wish to top up or sell their holdings of odd lots of the New Shares from 9:00 a.m. on Wednesday, 4 May 2016 to 4:00 p.m. on Tuesday, 24 May 2016, both dates inclusive.

Holders of the Existing Shares in odd lots who wish to take advantage of this facility either to dispose of their odd lots of the New Shares or to top up their odd lots to a full new board lot may directly or through their brokers contact Ms. Amy Wu of RHB Securities at 12/F., World-Wide House, 19 Des Voeux Road Central, Hong Kong (telephone number (852) 2103 9253) during office hours (i.e. 9:30 a.m. to 6:00 p.m.) within such period.

Shareholders should note that matching of the sale and purchase of odd lots of the New Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

REASONS FOR THE PROPOSED SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE

The proposed Share Consolidation will increase the nominal value of the Existing Shares and reduce the total number of Existing Shares currently in issue. Moreover, as the market value of each board lot upon the Share Consolidation and the Change in Board Lot Size becoming effective will be higher than the market value of each existing board lot, it is expected that the transaction cost as a proportion of the market value of each board lot will be lowered. It is also expected that the liquidity in trading of the New Shares will increase accordingly and the market value of the New Shares will more precisely reflect the intrinsic value of the Company. Accordingly, the Board is of the view that the Share Consolidation and the Change in Board Lot Size are in the interests of the Company and Shareholders as a whole.

Other than the expenses to be incurred by the Company in relation to the Share Consolidation and the Change in Board Lot Size, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the proportionate interests or rights of the Shareholders as a whole, save for any fractional New Share to which may arise.

OTHER ARRANGEMENTS

Fractional entitlement to the New Shares

Fractional New Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the New Shares will be aggregated, and, if possible, sold and retained for the benefit of the Company.

LETTER FROM THE BOARD

Exchange of Share Certificates

Subject to the Share Consolidation becoming effective, which is currently expected to be on 19 April 2016. Shareholders may during the business hours, on or after 19 April 2016 and until 4:30 p.m. on 26 May 2016 (both days inclusive) submit their share certificates in red for the Existing Shares to the Registrar to exchange, at the expense of the Company, for new share certificates in yellow for the New Shares on the basis of every ten (10) Existing Shares for one (1) New Share, without any fractional New Share.

Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) will be payable by the Shareholders to the Registrar for each share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for the New Shares, whichever the number of certificates cancelled or issued is higher.

Subject to the Share Consolidation becoming effective, with effect from 19 April 2016, trading will only be effected in the New Shares in the form of the new share certificates of which will be issued in yellow. The existing share certificates in red for the Existing Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title and may be exchanged for new share certificates for the New Shares.

OPEN OFFER

Issue statistics

Basis of the Open Offer:	Three (3) Offer Shares for every one (1) Share held on the Record Date and payable in full on application
Subscription Price:	HK\$0.035 per Existing Share (or HK\$0.35 per New Share)
Number of Shares in issue as at the Latest Practicable Date:	1,319,484,534 Existing Shares (equivalent to 131,948,453 New Shares if the Share Consolidation has become effective)
Number of Shares in issue assuming all the Shares Options (save for 324,750 Share Options held by Mr. Wang) were exercised on or before the Record Date:	1,351,278,858 Existing Shares (equivalent to 135,127,884 New Shares if the Share Consolidation has become effective)
Number of Offer Shares:	not less than 3,958,453,602 Existing Shares and not more than 4,053,836,574 Existing Shares (or not less than 395,845,359 New Shares and not more than 405,383,652 New Shares)

LETTER FROM THE BOARD

Number of Offer Shares agreed to be taken up or procured to be taken up by Mr. Wang and his associates pursuant to the Wang's Undertaking:

Mr. Wang has given the Wang's Undertaking in favour of the Company and RHB Securities that (i) he will subscribe for or procure subscription for an aggregate of 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) to which Mr. Wang and his associates are entitled under the Open Offer; and (ii) he will not convert all or part of the Convertible Bonds and exercise any of the 324,750 Share Options held by him on or before the Record Date.

Number of Offer Shares underwritten by RHB Securities:

(i) Assuming the Share Consolidation has not been effective, being not less than 2,775,733,653 Offer Shares (assuming no Share Options were exercised on or before the Record Date) and not more than 2,871,116,625 Offer Shares (assuming all the Share Options (save for 324,750 Share Options held by Mr. Wang) are exercised on or before the Record Date); or (ii) assuming the Share Consolidation has become effective, being not less than 277,573,365 Offer Shares and not more than 287,111,658 Offer Shares, being the minimum and maximum number of the Offer Shares less the aggregate number of the Offer Shares agreed to be taken up pursuant to the Wang's Undertaking. Accordingly, the Open Offer is fully underwritten.

Number of enlarged Shares in issue upon completion of the Open Offer:

Not less than 5,277,938,136 Existing Shares and not more than 5,405,115,432 Existing Shares (or not less than 527,793,812 New Shares and not more than 540,511,536 New Shares)

Assuming (i) no further issue of new Existing Shares or repurchase of Existing Shares; (ii) none of the Convertible Bonds were converted on or before the Record Date; and (iii) no Share Options were exercised on or before the Record Date, the 3,958,453,602 Offer Shares (or 395,845,359 Offer Shares if the Share Consolidation has become effective) proposed to be allotted and issued represents (i) 300% of the Company's issued share capital as at the date of the Announcement and the Latest Practicable Date; and (ii) 75% of the Company's issued share capital as enlarged by the allotment and issue of the 3,958,453,602 Offer Shares (or 395,845,359 Offer Shares if the Share Consolidation has become effective) immediately after completion of the Open Offer.

Save for (i) the Convertible Bonds convertible into up to 94,142,021 Existing Shares; and (ii) the outstanding Share Options granted under the Share Option Scheme, the Company does not have any other outstanding convertible note, warrant, option, derivative or other securities convertible into or exchangeable for any Share as at the Latest Practicable Date. The Company has no intention to issue or grant any warrants, options and/or convertible securities on or before the Record Date.

LETTER FROM THE BOARD

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders and will not be extended to the Prohibited Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders. To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii) not be the Prohibited Shareholders.

Shareholders whose Shares are held by nominee companies should note that the Board will regard a nominee company as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:30 p.m. on Thursday, 21 April 2016. The address of the Registrar is at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable.

Closure of register of members

The register of members of the Company will be closed from Friday, 22 April 2016 to Wednesday, 27 April 2016, both dates inclusive, to determine the eligibility of the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price is HK\$0.035 per Existing Share (or HK\$0.35 per New Share), payable in full on application. The Subscription Price represents:

- (i) a discount of approximately 80.34% to the closing price of HK\$0.178 per Existing Shares (or HK\$1.78 per New Share) as quoted on Stock Exchange on the Last Trading Day (the "**Last Trading Date Price**");
- (ii) a discount of approximately 50.70% to the theoretical ex-entitlement price of approximately HK\$0.071 per share as adjusted for the effect of the Open Offer based on the closing price of HK\$0.178 per Existing Share (or HK\$0.708 per share after taking into account the Share Consolidation) as quoted on the Stock Exchange on the Last Trading Day (the "**Theoretical Ex-entitlement Price**");

LETTER FROM THE BOARD

- (iii) a discount of approximately 80.34% to the average closing price of approximately HK\$0.178 per Existing Share (or HK\$1.78 per New Share) for the last five consecutive trading days including and up to the Last Trading Day;
- (iv) a discount of approximately 94.53% to the net asset value per Existing Share of approximately HK\$0.64 based on the unaudited consolidated financial statements of the Company as at 30 June 2015 and the 1,319,484,534 Existing Shares in issue as of the Last Trading Day (or HK\$6.4 per New Share); and
- (v) a discount of approximately 55.13% to the closing price of HK\$0.078 per Existing Share (or HK\$0.78 per New Share) as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and RHB Securities with reference to, among other things (i) the prevailing market price of the Existing Shares which was on a declining trend in the past six months prior to the entering into of the Underwriting Agreement. Monthly average closing prices of the Existing Shares declined from approximately HK\$0.340 per Existing Share in July 2015 to approximately HK\$0.201 per Existing Share in December 2015, representing a decrease of approximately 40.80%. Trading price of the Existing Shares further declined after December 2015 which closed at HK\$0.178 as at the date of the Underwriting Agreement, representing a drop of approximately 11.62% from the monthly average closing price in December 2015; (ii) the uncertainty of current market volatility; (iii) the financial position of the Group which has been loss making for the years ended 31 December 2013 and 2014 and the Group still recorded net loss for the nine months ended 30 September 2015. Further details on the historical financial performance of the Group is set out in the section headed "Reasons for the Open Offer and use of proceeds"; and (iv) the thin trading volume of the Existing Shares and also demonstrated a downward trend during October 2015 to December 2015. Average daily trading volume of the Existing Shares in October 2015, November 2015 and December 2015 are approximately 0.05%, 0.04% and 0.03% respectively of the total issued Existing Shares as at the date of the Underwriting Agreement.

Taking into consideration of the above and to reflect the absence of the excess application arrangement to the Qualifying Shareholders, the Subscription Price is intended to be set at a relatively deep discount with an objective to lower the further investment cost of the Qualifying Shareholders to encourage them to take up their entitlements and to participate in the potential growth of the Company.

In the course of considering the Open Offer, the Company has approached three other underwriters, in addition to the Underwriter, trying to obtain the best available terms for the underwriting of the Open Offer. However, neither of them showed interest in providing underwriting service for the Company's proposed open offer given the size of the Open Offer, the Company's business scale, the financial performance of the Group and the recent uncertainty in the financial market. Given no positive feedback were received from those underwriters, the Underwriter is the only available securities house who agreed to provide underwriting service for the Open Offer.

LETTER FROM THE BOARD

In order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) consider that the proposed discount of the Subscription Price to the market price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) consider the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole. After deducting all relevant expenses relating to the Open Offer, the net price per Offer Share will be approximately HK\$0.034 per Existing Share or HK\$0.337 per New Share (assuming no new Existing Shares being issued and no Existing Shares being repurchased by the Company on or before the Record Date) or approximately HK\$0.034 per Existing Share or HK\$0.337 per New Share (assuming full exercise of all the outstanding and exercisable Share Options (save for 324,750 Share Options held by Mr. Wang) and no new Existing Shares being issued and no Existing Shares being repurchased by the Company on or before the Record Date).

Dilution effect of the Open Offer

On the assumption that the Qualifying Shareholders elect not to participate in the Open Offer, there will be a dilution effect on the share price after the Open Offer of downward adjustment of approximately 60.11% based on the Last Trading Date Price compare with the Theoretical Entitlement Price and a dilution effect on the Company's share in issue of 75%.

The Board considers that the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. Having considered and balanced against the extra administrative work and additional cost which will be involved for the trading arrangement of nil-paid rights, and given that all Qualifying Shareholders can have an equal opportunity to maintain their interests in the Company, the Directors are of the view that raising funds by way of the Open Offer is a better option and the Open Offer is in the interests of the Company and the Shareholders as a whole. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

Status of the Offer Shares

The Offer Shares (when allotted, fully paid or credited as fully paid and issued) will rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

LETTER FROM THE BOARD

Share certificates and refund cheques of the Offer Shares

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before Tuesday, 24 May 2016 to those entitled thereto by ordinary post at their own risk. If the Open Offer is terminated, refund cheques are expected to be posted on or before Tuesday, 24 May 2016 by ordinary post to the applicants at their own risk.

Rights of the Overseas Shareholders

If, at the close of business on the Record Date, a Shareholder's address on the register of member of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong. The Board will make enquiries with its legal advisers as to whether the issue of Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders, no provisional allotment of Offer Shares will be made to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Prohibited Shareholders. As no Offer Shares will be offered to the Prohibited Shareholders, all untaken Offer Shares will be taken up by the Underwriter under the Underwriting Agreement.

According to the register of members of the Company as at the Latest Practicable Date, there was a Overseas Shareholder whose address on the register of members was in the PRC. The Directors have made enquiry regarding the legal restrictions with respect to the offering of the Offer Shares to such Overseas Shareholder. Based on the opinion of such legal adviser, the Directors have formed the view that it is expedient for the Offer Shares to be offered to the Overseas Shareholder in the PRC as no local legal or regulatory compliance is required to be made by the Company in these jurisdictions to offer the Offer Shares. Accordingly, the Open Offer will include the Overseas Shareholders with registered addresses in the PRC and the Prospectus Documents will be sent to such Qualifying Shareholders. The Company will continue to ascertain whether there is any Overseas Shareholders on the Record Date and will, if necessary, make further enquiries regarding the feasibility of extending the Open Offer to such Overseas Shareholders.

Further information in this connection will be set out in the Prospectus Documents containing, among other things, details of the Open Offer, to be despatched to the Qualifying Shareholders on the Prospectus Posting Date. The Company will send copies of the Prospectus to the Prohibited Shareholders for their information only, but no Application Form will be sent to them.

Overseas Shareholders should note that they may or may not be entitled to the Open Offer. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

No application for excess Offer Shares

After arm's length negotiation with the Underwriter, the Board has decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Given that each Qualifying Shareholder will be given equal and fair opportunity to participate in the Open Offer to maintain their proportionate interests in the Company, the Board considers that it will put in additional effort and costs to administer the excess application procedures, including preparing and arranging the excess application, reviewing the relevant documents, liaising with professional parties and printing of application forms, etc. It is also estimated that an additional cost of not less than HK\$100,000 to administer the excess application procedures will be incurred. The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2014 of approximately RMB333.35 million and approximately RMB20.19 million for the nine months ended 30 September 2015. Further details on the historical financial performance of the Group is set out in the section headed "Reasons for the Open Offer and use of proceeds". In light of the above, such costs might not be justifiable under the recent financial performance of the Group. Accordingly, no excess Offer Shares will be offered to the Qualifying Shareholders and, save for the Offer Shares to be taken up pursuant to the Wang's Undertaking, any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Fractions of the Offer Shares

On the basis of provisional allotment of three (3) Offer Shares for every one (1) Share held on the Record Date, no fractional entitlements to the Offer Shares will arise under the Open Offer.

Application for the Offer Shares

The Application Form in respect of the entitlement of the Offer Shares will be enclosed with the Prospectus entitling the Qualifying Shareholders to whom it is addressed to subscribe for the Offer Shares as shown therein by completing such form and lodging the same with a remittance for the Offer Shares being taken up by the Latest Time for Acceptance.

Application for listing

The Company will apply to the GEM Listing Committee for the listing of, and permission to deal in, the Offer Shares. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty (if any) in Hong Kong and any other applicable fees and charges in Hong Kong.

Subject to the granting of the approval for the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

Underwriting Agreement (as amended and supplemental by the Supplemental Underwriting Agreement)

Date: 7 January 2016 (after trading hours) and 15 March 2016 (after trading hours)

Parties: (i) the Company; and
(ii) RHB Securities.

Number of Offer Shares underwritten: Pursuant to the Underwriting Agreement, RHB Securities has conditionally agreed to underwrite the Offer Shares (other than the Offer Shares agreed to be taken up pursuant to the Wang's Undertaking) which have not been taken up (the "**Untaken Shares**"). Accordingly, the Open Offer is fully underwritten.

Commission: 3.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares (i.e. 2,871,116,625 Existing Shares or 287,111,658 New Shares) payable to the RHB Securities. The commission rate was determined after arm's length negotiations between the Company and RHB Securities with reference to, among other things, the scale of the Open Offer and the market rate, and the Board considers that the underwriting commission rate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The terms of the Underwriting Agreement are agreed after arm's length negotiation between the Company and the RHB Securities by reference to the existing financial position of the Group, the size of the Open Offer, and the current and expected market condition. The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Underwriting Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

To the best of the Directors' knowledge, information and belief, RHB Securities and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the Underwriting Agreement, the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 19.99% of the voting rights of the Company upon the completion of the Open Offer. The Underwriter shall also use all reasonable endeavours to ensure that each of the subscribers or purchasers of the Untaken Shares procured by it (i) shall be third party independent of, not acting in concert (within the meaning of the

LETTER FROM THE BOARD

Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholder(s) or their respective associates; and (ii) save for the Underwriter itself and its associates, shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it and subject to compliance with the public float requirements under the GEM Listing Rules, hold 10.00% or more of the voting rights of the Company upon completion of the Open Offer.

Undertaking given by Mr. Wang and the Set-off Arrangement

Mr. Wang has given the Wang's Undertaking in favour of the Company and RHB Securities that (i) he will subscribe for or procure subscription for an aggregate of 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) to which he and his associates are entitled under the Open Offer; and (ii) he will not convert all or part of the Convertible Bonds and will not exercise any Share Options held by him on or before the Record Date.

Pursuant to the Wang's Undertaking, part of the total Subscription Price of HK\$19,140,000 in respect of the 546,857,142 Offer Shares (or 54,685,714 Offer Shares if the Share Consolidation has become effective) among those 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) to be subscribed by Mr. Wang and his associates under the Open Offer will be set-off against the entire outstanding principal amount of the Convertible Bonds of HK\$21,238,440 by redeeming the outstanding principal amount of the Convertible Bonds pursuant to its terms in full at a discount of approximately 9.88%.

Given that the Convertible Bonds do not bear interest, the Company considers that instead of set-off on a dollar-to-dollar basis, it would be necessary and in the benefits of the Company to redeem the Convertible Bonds at a discount.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the absolute opinion of RHB Securities, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of RHB Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

LETTER FROM THE BOARD

- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of RHB Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of RHB Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of RHB Securities will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
 - (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
 - (5) any material adverse change in the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
 - (6) the Prospectus Documents in connection with the Open Offer when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of RHB Securities is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer; or

LETTER FROM THE BOARD

- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, the circular (together with the notice convening the SGM and the form of proxy) to be despatched to the Shareholders or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (8) any indication from the Stock Exchange and/or other regulators that any Shareholders and/or the Underwriter and/or any subscriber(s) or purchaser(s) of the Untaken Shares procured by the RHB Securities will be obliged to make a general offer for Shares in accordance with the requirement of the Takeovers Code; or
- (9) any indication from the Stock Exchange and/or other regulators that the Company will not be in compliance with the public float requirements under the GEM Listing Rules as a result of the Open Offer,

RHB Securities shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

RHB Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of RHB Securities; or
- (2) any Specified Event comes to the knowledge of RHB Securities.

Any such notice shall be served by RHB Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

Conditions of the Open Offer

The Open Offer and the transactions contemplated thereunder are conditional upon:

- (1) the passing of the necessary resolution(s) by the Independent Shareholders at the SGM to approve, among others, the Open Offer and the transactions contemplated hereunder including but not limited to the Set-off Arrangement;
- (2) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies (WUMP) Ordinance not later than the Prospectus Posting Date;

LETTER FROM THE BOARD

- (3) the posting of the Prospectus Documents to the Qualifying Shareholders by the Prospectus Posting Date and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;
- (4) the GEM Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings;
- (5) the Underwriting Agreement not being terminated or rescinded by RHB Securities pursuant to the terms thereof on or before the Latest Time for Termination;
- (6) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement; and
- (7) compliance with and performance of all undertakings and obligations of Mr. Wang under the Wang's Undertaking.

Neither of the Company nor RHB Securities may waive the conditions above except for condition (6). RHB Securities may waive the condition (6) in whole or in part by written notice to the Company. If the above conditions precedent are not satisfied in whole or in part by the Latest Time for Termination or such other date as the Company and RHB Securities may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

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 natural gas ("LNG") is in Shanxi Qinshui Basin which boasts the richest liquefied coalbed gas, while its distribution network extends to Shanxi, Guangxi and Guangdong Provinces of the PRC, etc.

The gross proceeds from the Open Offer (after taking into account of the Set-off Arrangement) will not be less than approximately HK\$119.41 million and not more than approximately HK\$122.74 million. The estimated net proceeds from the Open Offer will be not less than approximately HK\$114.24 million (after the Set-off Arrangement). The Board intends to apply such proceeds from the Open Offer as to (i) approximately 10% towards its general working capital; (ii) approximately 20% towards the prepayment on purchase of natural gas; (iii) approximately 40% towards the repayment to construction supplier(s); and (iv) approximately 30% for drilling and construction of wells and technical upgrade of wells. As at the Latest Practicable Date, the Company is not in the course of negotiations with any parties for any notifiable transactions in respect of the above matters. The estimated expenses in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses will be borne by the Company.

LETTER FROM THE BOARD

Natural gas exploration and extraction

According to the third quarterly report of the Company for the nine months ended 30 September 2015 (“**2015 3rd Quarterly Report**”), as at 30 September 2015, the Group has already completed the ground work and drilling of 274 coalbed methane (“**CBM**”) wells, of which 223 wells were in production and 51 CBM wells were under construction (“**CBM Wells Under Construction**”). The average gas production volume of the existing wells ready for immediate gas output is 800 cubic meters per day per well and the total gas output is approximately 178,000 cubic meters per day. In order to further expand the gas output of the Group, the Directors expected that ground work and drilling will be conducted for 6 additional CBM wells in the next 12 months after the Latest Practicable Date which will incur capital expenditure of approximately RMB12.9 million. Based on the stage of construction of the CBM Wells Under Construction, the Directors estimated that 25 of the CBM Wells Under Construction will be completed in the next 12 months after the Latest Practicable Date which will incur capital expenditure of approximately RMB15 million.

In addition, the Group will invest approximately RMB3.60 million to further improve the gas output of certain CBM wells of the Group by way of CBM wells workovers, hydraulic fracture stimulations and extraction facility improvement. The Directors estimated that the improvement of such CBM wells will be completed in the next 12 months after the Latest Practicable Date which will incur capital expenditure of approximately RMB3.6 million.

Based on the drilling, construction and upgrade plans of the CBM wells of the Group mentioned above, the total expenditure in relation to the drilling, construction and improvement of the CBM wells is estimated to be approximately RMB31.5 million, or approximately HK\$37.33 million, in the next 12 months after the Latest Practicable Date. As at 31 December 2015, our trade and other payable relating to the outstanding amount due to the construction suppliers of the Group amounted to approximately RMB130.45 million.

Liquefaction operation

According to the 2015 3rd Quarterly Report, the LNG production capacity of the Group is approximately 500,000 cubic meters per day but its utilisation had not achieved its full potential and there is still room for growth. As set out in the annual report of the Company for the year ended 31 December 2014 (“**2014 Annual Report**”), such under-utilization of the Group’s LNG production capacity is primarily due to the Group’s inadequate purchase of natural gas to conduct downstream liquefaction. The shortage of gas supply in the whole LNG industry in Shanxi, the PRC, including the Group, has not yet improved significantly, which resulted in a lower utilisation rate of the LNG plant of the Group in Qinshui Shuntai (the “**Qinshui Shuntai LNG plant**”). Accordingly, the Group had purchased natural gas from other suppliers which are Independent Third Parties in order to improve the supply of gas to the Qinshui Shuntai LNG plant. In 2014, the Group also engaged with China United Coalbed Methane Co. Ltd. (中聯煤層氣有限責任公司), an Independent Third Party, in an effort to further stabilise the supply of natural gas to the Qinshui Shuntai LNG plant. In 2014, the utilization rate of Qinshui Shuntai LNG plant has improved gradually due to the stable natural gas supply from the natural gas suppliers of the Group (the “**Gas Suppliers**”) and the gas supply from Yangcheng gas block which had resulted in the Qinshui Shuntai LNG plant recorded a profit in

LETTER FROM THE BOARD

forth quarter of 2014. For the nine months ended 30 September 2015, the natural gas purchased from the Gas Suppliers amounted to approximately 68.43 million cubic meters at a total cost amounted to approximately RMB88.05 million, which accounted for approximately 73.98% of the total volume of gas supplied to the Qinshui Shuntai LNG plant. The Directors consider that the continuing purchase of natural gas by the Group from Gas Suppliers will ensure the stable operation of the Qinshui Shuntai LNG plant and the production of LNG of the Group which is beneficial to the Company. For the next 12 months after the Latest Practicable Date, the Directors estimated that the purchase from the Gas Suppliers will be not less than the daily level in 2015 of approximately 275,000 cubic meters which will amount to an aggregate of approximately RMB119.60 million, or approximately HK\$141.74 million.

As set out in the 2014 Annual Report, the Group recorded a consolidated turnover of approximately RMB301.12 million for the year ended 31 December 2014, representing an increase of approximately 60.87% compared with that of the corresponding period in 2013. The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2014 of approximately RMB333.35 million compared with that of approximately RMB271.44 million for the year ended 31 December 2013. According to the 2014 Annual Report, the reasons for the loss are mainly due to: (i) loss of approximately RMB104.30 million arising from the impairment loss on goodwill which was recognised with respect to the operation of coalbed methane exploration and development, natural gas liquefaction and liquefied natural gas distribution; (ii) the loss of approximately RMB138.70 million arising from an impairment loss on intangible assets; (iii) loss on extinguishment of liability of RMB57.02 million arising from the debt-equity swap; and (iv) the increase in other operating expenses. According to the interim report of the Company for the six months ended 30 June 2015, the net assets of the Group decreased from approximately RMB735.08 million as at 31 December 2014 (audited) to approximately RMB712.77 million as at 30 June 2015 (unaudited) which is mainly attributable to the unaudited loss attributable to equity shareholders of the Company of approximately RMB17.28 million for the six months ended 30 June 2015. According to the 2015 3rd Quarterly Report, the unaudited loss attributable to equity shareholders of the Company further increased to approximately RMB20.19 million in compare with the result for the six months ended 30 June 2015. As at 31 December 2015, the unaudited cash and bank balances of the Group amounted to approximately RMB45 million. Nevertheless, the Group has started to generate revenue, profit and cash flow from the business of exploitation of natural gas, and its profitability and cash flow position as a result of improvement of the number and capabilities of production wells. The performance of the Qinshui Shuntai LNG plant will also improve after enhancement of its utilization rate through maintenance of its equipment and expected increase in gas supply. The Directors considers that it will be a merit for the Group to have additional working capital for investment in the Group's production wells and enhancement of utilization rate of the Qinshui Shuntai LNG plant. In view of the Group's historical net losses and the capital requirement of the Group's natural gas exploration and extraction business and liquefaction operation, there is a need for the Company to raise additional funds to strengthen its financial position and meet the funding requirements for its business operation and development. To the best of the Directors' knowledge, information and belief, the proceeds from Open Offer and the internal funding of the Company can satisfy the Company's expected funding needs for the next 12 months from the Latest Practicable Date.

LETTER FROM THE BOARD

The Company has considered other fund raising alternatives before resolving to the Open Offer, including but not limited to debt financing, placement of new Shares and rights issue. In comparison, debt financing exercises such as bank borrowings will increase the gearing ratio of the Company and the Company will also have to bear the corresponding interest expenses. Placing of new Shares will not allow the Shareholders to have an opportunity to participate in the fund raising exercise and will dilute the shareholding of the existing Shareholders. The Board has also considered rights issue as an alternative means of fund raising other than the Open Offer. Although rights issue enables those Shareholders who do not wish to take up the entitlements to trade their nil-paid rights, it would incur additional administrative work and cost by the Company for arranging the trading of nil-paid rights. In light of the recent financial performance of the Group as set out in the foregoing paragraph, such costs and fees might not be justifiable to incur. Further, it is noted that the trading volume of the Shares was thin and there is uncertainty on the market trading of the nil paid rights.

After considered other fund raising alternatives for the Group as mentioned above and taking into account the benefits and cost of each of the alternatives, the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates. The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) consider that the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

Accordingly, the Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Open Offer are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE

Assuming the Share Consolidation has become effective before the Record Date of the Open Offer, the existing and enlarged shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately before and after the completion of the Open Offer are set out below:

- (a) Assuming that on or before the Record Date (i) no new Shares were issued or repurchased; and (ii) no Share Options were exercised:

Shareholders	As at the Latest Practicable Date		Immediately after the Share Consolidation but before completion of the Open Offer		Upon completion of the Open Offer			
	Number of Existing Shares	Approximate %	Number of New Shares	Approximate %	Assuming no Qualifying Shareholders take up their respective entitlements under the Open Offer (save for Mr. Wang and his associates pursuant to the Wang's Undertaking)		Assuming full subscription by the Qualifying Shareholders as to their respective entitlements under the Open Offer	
					Number of New Shares	Approximate %	Number of New Shares	Approximate %
Mr. Wang and his associates (<i>Note 1</i>)	394,239,983	29.88	39,423,998	29.88	157,695,992	29.88	157,695,992	29.88
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any) (<i>Note 2</i>)	—	—	—	—	277,573,365	52.59	—	—
Other public Shareholders	925,244,551	70.12	92,524,455	70.12	92,524,455	17.53	370,097,820	70.12
Total	1,319,484,534	100.00	131,948,453	100.00	527,793,812	100.00	527,793,812	100.00

LETTER FROM THE BOARD

- (b) Assuming that on or before the Record Date (i) no new Shares were issued or repurchased; and (ii) all Share Options (save for the 324,750 Share Options held by Mr. Wang) were exercised:

Shareholders	As at the Latest Practicable Date		Immediately after the Share Consolidation but before completion of the Open Offer		Upon allotment and issue of the new Shares pursuant to the exercise of all the Share Options on or before the Record Date		Upon completion of the Open Offer			
							Assuming no Qualifying Shareholders take up their respective entitlements under the Open Offer (save for Mr. Wang and his associates under the Wang's Undertaking)		Assuming full subscription by the Qualifying Shareholders as to their respective entitlements under the Open Offer	
	<i>Number of Existing Shares</i>	<i>Approximate %</i>	<i>Number of New Shares</i>	<i>Approximate %</i>	<i>Number of New Shares</i>	<i>Approximate %</i>	<i>Number of New Shares</i>	<i>Approximate %</i>	<i>Number of New Shares</i>	<i>Approximate %</i>
Mr. Wang and his associates (Note 1)	394,239,983	29.88	39,423,998	29.88	39,423,998	29.18	157,695,992	29.18	157,695,992	29.18
Mr. Fu Shou Gang (Note 3)	—	—	—	—	32,475	0.02	32,475	0.01	129,900	0.02
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any)(Note 2)	—	—	—	—	—	—	287,111,658	53.11	—	—
Other public Shareholders	925,244,551	70.12	92,524,455	70.12	95,671,411	70.80	95,671,411	17.70	382,685,644	70.80
Total	1,319,484,534	100.00	131,948,453	100.00	135,127,884	100.00	540,511,536	100.00	540,511,536	100.00

LETTER FROM THE BOARD

Assuming the Share Consolidation have not become effective on or before the Record Date, the existing and enlarged shareholding structures of the Company immediately before and after the completion of the Open Offer are set out below:

- (a) Assuming that on or before the Record Date (i) no new Shares were issued or repurchased; and (ii) no Share Options were exercised:

Shareholders	Upon completion of the Open Offer					
	As at the Latest Practicable Date		Assuming full subscription by the Qualifying Shareholders as to their respective entitlements under the Open Offer		Assuming no Qualifying Shareholders take up their respective entitlements under the Open Offer (save for Mr. Wang and his associates pursuant to the Wang's Undertaking)	
			Number of Existing Shares	Approximate %	Number of Existing Shares	Approximate %
Mr. Wang and his associates (Note 1)	394,239,983	29.88	1,576,959,932	29.88	1,576,959,932	29.88
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any) (Note 2)	—	—	2,775,733,653	52.59	—	—
Other public Shareholders	925,244,551	70.12	925,244,551	17.53	3,700,978,204	70.12
Total	1,319,484,534	100.00	5,277,938,136	100.00	5,277,938,136	100.00

LETTER FROM THE BOARD

- (b) Assuming that on or before the Record Date (i) no new Shares were issued or repurchased; and (ii) all Share Options (save for the 324,750 Share Options held by Mr. Wang) were exercised:

Shareholders	As at the		Upon allotment and		Upon completion of the Open Offer			
	Latest Practicable Date		issue of the new Existing Shares		Assuming no Qualifying		Assuming full	
	<i>Number of</i>	<i>Approximate</i>	<i>Number of</i>	<i>Approximate</i>	Shareholders take up		subscription by the	
	<i>Existing Shares</i>	<i>%</i>	<i>Existing Shares</i>	<i>%</i>	their respective entitlements		Qualifying Shareholders as to	
			on or before the Record Date		under the Open Offer		their respective entitlements	
					(save for Mr. Wang and		under the Open Offer	
					his associates under			
					the Wang's Undertaking)			
	<i>Number of</i>	<i>Approximate</i>	<i>Number of</i>	<i>Approximate</i>	<i>Number of</i>	<i>Approximate</i>	<i>Number of</i>	<i>Approximate</i>
	<i>Existing Shares</i>	<i>%</i>	<i>Existing Shares</i>	<i>%</i>	<i>Existing Shares</i>	<i>%</i>	<i>Existing Shares</i>	<i>%</i>
Mr. Wang and his associates <i>(Note 1)</i>	394,239,983	29.88	394,239,983	29.18	1,576,959,932	29.18	1,576,959,932	29.18
Mr. Fu Shou Gang <i>(Note 3)</i>	—	—	324,750	0.02	324,750	0.01	1,299,000	0.02
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any) <i>(Note 2)</i>	—	—	—	—	2,871,116,625	53.11	—	—
Other public Shareholders	925,244,551	70.12	956,714,125	70.80	956,714,125	17.70	3,826,856,500	70.80
Total	1,319,484,534	100.00	1,351,278,858	100.00	5,405,115,432	100.00	5,405,115,432	100.00

LETTER FROM THE BOARD

Notes:

1. As at the Latest Practicable Date, 18,118,500 Existing 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. Mr. Wang is interested as (i) a grantee of Share Options to subscribe for 324,750 Shares under the Share Option Scheme; (ii) beneficial owner of the Convertible Bonds; and (iii) 376,121,483 Existing Shares held by him personally. Pursuant to the Wang's Undertaking, Mr. Wang undertakes not to convert all or part of the Convertible Bonds and exercise any of the 324,750 Share Options held by him on or before the Record Date.
2. Pursuant to the Underwriting Agreement, the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 19.99% of the voting rights of the Company upon the completion of the Open Offer. The Underwriter shall also use all reasonable endeavours to ensure that each of the subscribers or purchasers of the Untaken Shares procured by it (i) shall be third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholder(s) or their respective associates; and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it and subject to compliance with the public float requirements under the GEM Listing Rules, hold 10.00% or more of the voting rights of the Company upon completion of the Open Offer.

As at the Latest Practicable Date, RHB Securities had entered into sub-underwriting agreements with the following parties:

- (i) SBI China Capital Financial Services Limited for an aggregate sub-underwriting commitment of 1,430,000,000 Offer Shares (or 143,000,000 Offer Shares if the Share Consolidation has become effective), representing approximately 27.09% of the total issued Shares immediately after completion the Open Offer (assuming none of the Share Options will be exercised). SBI China Capital Financial Services Limited, which is an Independent Third Party, is a licensed corporation under the SFO and principally carries on regulated activities under the SFO, including but not limited to type 1 (dealing in securities). Hence, the sub-underwriting arrangement is in the ordinary course of business the sub-underwriter;
- (ii) Black Marble Securities Limited for an aggregate sub-underwriting commitment of 714,000,000 Offer Shares (or 71,400,000 Offer Shares if the Share Consolidation has become effective), representing approximately 13.53% of the total issued Shares immediately after completion the Open Offer (assuming none of the Share Options will be exercised). Black Marble Securities Limited, which is an Independent Third Party, is a licensed corporation under the SFO which is primarily engaged in carrying on type 1 (dealing in securities) regulated activities under the SFO. Hence, the sub-underwriting arrangement is in the ordinary course of business the sub-underwriter; and
- (iii) Salus Investments Limited for an aggregate sub-underwriting commitment of 200,000,000 Offer Shares (or 20,000,000 Offer Shares if the Share Consolidation has become effective), representing approximately 3.79% of the total issued Shares immediately after completion the Open Offer (assuming none of the Share Options will be exercised). Salus Investments Limited, which is an Independent Third Party, is a company incorporated in the British Virgin Islands with limited liability which is primarily engaged in investment holdings.

LETTER FROM THE BOARD

Pursuant to the Underwriting Agreement, it is one of the conditions precedent that the Underwriter must comply with all its the obligations under the Underwriting Agreement, including but not limited to its undertaking to the Company that it will sub-underwrite its underwriting obligations to sub-underwriters, who are Independent Third Parties, so that each of the ultimate subscribers or purchasers procured by the Underwriter or the sub-underwriters will be Independent Third Parties and not (together with each of the respective parties acting in concert or any of their respective connected persons or associates) hold in aggregate 10% or more of the voting rights of the Company immediately after the Open Offer.

3. As at the Latest Practicable Date, Mr. Fu Shou Gang is not interested in any Existing Shares and is interested as a grantee of Share Options to subscribe for 324,750 Shares under the Share Option Scheme.

The Company will take all appropriate steps to ensure that sufficient public float be maintained upon the completion of the Open Offer in compliance with the GEM Listing Rules.

POSSIBLE ADJUSTMENTS TO THE SHARE OPTION SCHEME AS A RESULT OF THE OPEN OFFER AND THE SHARE CONSOLIDATION

As a result of the completion of the Open Offer and the Share Consolidation, adjustments may need to be made to the exercise price of and/or the number of Shares to be allotted and issued upon exercise of the outstanding Share Options in accordance with the terms of the Share Option Scheme. The Company will engage the Company's auditors/financial adviser to review and determine the relevant adjustments and make further announcements on the appropriate adjustments and the date they are expected to take effect in due course.

CONNECTED TRANSACTION: SET-OFF OF THE CONVERTIBLE BONDS

As at the Latest Practicable Date, Mr. Wang is the holder of the Convertible Bonds. Pursuant to the Underwriting Agreement, Mr. Wang and the Company have agreed that the Subscription Price required to be paid by Mr. Wang for his subscription in respect of the 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) under the Wang's Undertaking would be settled by way of: (i) HK\$19.14 million by the Set-off Arrangement against the Convertible Bonds; and (ii) the remaining of approximately HK\$22.26 million in cash.

Pursuant to the Wang's Undertaking, part of the total Subscription Price of HK\$19.14 million in respect of the 546,857,142 Offer Shares (or 54,685,714 Offer Shares if the Share Consolidation has become effective) among those 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) to be subscribed by Mr. Wang and his associates under the Open Offer will be set off against the entire outstanding principal amount of the Convertible Bonds of HK\$21,238,440 by redeeming the outstanding principal amount of the Convertible Bonds pursuant to its terms in full at a discount of approximately 9.88%.

Completion of the Set-off Arrangement shall take place simultaneously with the allotment and issuance of the Offer Shares by the Company pursuant to the terms of the Open Offer.

LETTER FROM THE BOARD

Reason for the Set-off Arrangement

The Directors consider that the Set-off Arrangement will enable the Group to repay part of the liabilities of the Company without cash outflow and will allow the Group to reduce its debt level. The Directors (including the independent non-executive Directors after taking into consideration of the advice of Independent Financial Adviser) accordingly consider that the Set-off Arrangement under the Open Offer, whilst not in the ordinary and usual course business of the Group is on normal commercial terms and is in the interests of the Company and the Independent Shareholders as a whole.

Implications under GEM Listing Rules

Since Mr. Wang is a substantial Shareholder and an executive Director, the Set-off Arrangement constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and requires the approval of the Independent Shareholders.

FUND RAISING EXERCISES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company did not conduct any equity fund raising exercises over the past 12-month period immediately preceding the date of the Announcement and up to the Latest Practicable Date.

IMPLICATIONS UNDER THE GEM LISTING RULES

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

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

LETTER FROM THE BOARD

As Mr. Wang is deemed to have a material interest in the Set-off Arrangement, Mr. Wang and his associates will abstain from voting at the SGM on the resolutions in relation to the Open Offer and the Set-off Arrangement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Share Consolidation and are required to abstain from voting in approving the Share Consolidation at the SGM. The Share Consolidation is subject to the passing of resolution by the Shareholders approving the same at the SGM. The voting at the SGM will be taken by way of poll.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He, has been established by the Company to advise the Independent Shareholders on whether the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM.

INDEPENDENT FINANCIAL ADVISER

Hooray Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM. Such appointment has been approved by Independent Board Committee.

SGM

A notice convening the SGM to be held at Conference Room, No. 2, Tsui Ming Road, Yixian Industrial Zone, Wuqing Development Zone, Tianjin, the People's Republic of China on Monday, 18 April 2016 at 9:30 a.m. is set out on pages 99 to 102 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 pages 39 to 40 of this circular; and (ii) the letter from Hooray Capital which contains its advice to the Independent Board Committee and Independent Shareholders in connection with the Open Offer, the Underwriting Agreement and the Set-off Arrangement and the principal factors and reasons taken into consideration in arriving at such recommendation, is set out on pages 41 to 76 of this circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement 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 Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the Open Offer, the Underwriting Agreement and the Set-off Arrangement at the SGM.

The Directors consider that the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors also believe that the Share Consolidation is in the interests of the Company and the Shareholders as a whole. Therefore, the Directors recommend the Independent Shareholders or the Shareholders to vote in favour of the proposed resolutions approving the Share Consolidation, the Open Offer, the Underwriting Agreement and the Set-off Arrangement at the SGM.

ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

29 March 2016

To the Independent Shareholders

Dear Sir or Madam,

**OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY ONE (1)
SHARE HELD ON THE RECORD DATE;
AND
CONNECTED TRANSACTION: SET-OFF OF THE CONVERTIBLE BONDS**

We refer to the circular of the Company to the Shareholders dated 29 March 2016 (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 Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable so far as the Independent Shareholders are concerned.

Hooray Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable as far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole. Details of its recommendation, together with the principal factors and reasons taken into consideration in arriving at such recommendation, are set out on pages 41 to 76 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 11 to 38 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement and the advice from Hooray Capital, we consider that the terms and conditions of the Open Offer, the Underwriting Agreement and the Set-off Arrangement, whilst not in the ordinary and usual course of business of the Group, 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 Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Open Offer, the Underwriting Agreement and the Set-off Arrangement and the transactions contemplated thereunder. The letter from Hooray Capital containing its recommendation to us and the principal factors and reasons taken into consideration in arriving at such recommendations is set out on pages 41 to 76 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*

LETTER FROM HOORAY CAPITAL

The following is the full text of a letter of advice from Hooray Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Open Offer, the Underwriting Agreement and the Set-off Arrangement for the purpose of incorporation into this circular.



29 March 2016

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**(I) OPEN OFFER ON THE BASIS OF
THREE (3) OFFER SHARES FOR EVERY ONE (1)
SHARE HELD ON THE RECORD DATE; AND
(II) CONNECTED TRANSACTION: SET-OFF OF THE CONVERTIBLE BONDS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, Underwriting Agreement and the Set-off Arrangement and the matters contemplated thereunder. Details of the Open Offer are contained in the “Letter from the Board” contained in the circular of the Company dated 29 March 2016 (the “**Circular**”) issued to the Shareholders, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 7 January 2016, the Company proposed the Open Offer to raise not less than approximately HK\$119.41 million and not more than approximately HK\$122.74 million (before expenses and after taking into account of the Set-off Arrangement) by issuing not less than 3,958,453,602 Existing Shares and not more than 4,053,836,574 Existing Shares at the Subscription Price of HK\$0.035 per Existing Share to the Qualifying Shareholders on the basis of three Offer Shares for every one Share held on the Record Date and payable in full on application. The Open Offer is only available to the Qualifying Shareholders and will not be extended to the Prohibited Shareholders. Qualifying Shareholders are not entitled to apply for excess Offer Shares not taken up in excess of their respective assured entitlements under the Open Offer.

好盈融資有限公司
Hooray Capital Limited

香港干諾道中148號粵海投資大廈19樓B室
Unit B, 19/F, Guangdong Investment Tower, 148 Connaught Road Central, Sheung Wan, Hong Kong
Tel. 電話 : (852) 2159 4500 Fax. 傳真 : (852) 2110 4453

LETTER FROM HOORAY CAPITAL

As at the Latest Practicable Date, Mr. Wang is the holder of the Convertible Bonds. Pursuant to the Wang's Undertaking, Mr. Wang, the Underwriter and the Company have agreed that the Subscription Price required to be paid by Mr. Wang and his associates for their subscription in respect of the 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) under the Wang's Undertaking would be settled by way of: (i) HK\$19.14 million by way of the Set-off Arrangement against the Convertible Bonds; and (ii) approximately HK\$22.26 million in cash.

As the Open Offer will increase the issued share capital of the Company by more than 50% within the 12-month period immediately preceding the date of the Announcement, pursuant to Rule 10.39 of the GEM Listing Rules, the Open Offer is conditional on, among other things, the approval by the Independent Shareholders at the SGM by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer, the Underwriting Agreement and other transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, there is no controlling Shareholder, only the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will be required to abstain from voting in favour of the resolutions relating to the Open Offer, the Underwriting Agreement and other transactions contemplated thereunder at the SGM. As a result, the Directors (excluding the independent non-executive Directors), being Mr. Wang and Mr. Fu Shou Gang, and their respective associates will be required to abstain from voting in favour of the resolutions in relation to the Open Offer, the Underwriting Agreement and other transactions contemplated thereunder at the SGM. In addition, Mr. Wang, being the chairman and an executive director of the Company, together with his associates are holding an aggregate of 394,239,983 Existing Shares, representing approximately 29.88% of the issued share capital of the Company, and the holder of the Convertible Bonds as at the Latest Practicable Date, are connected persons of the Company and are deemed to have a material interest in the Set-off Arrangement pursuant to the GEM Listing Rules. Mr. Wang and his associates shall abstain from voting in favour of the resolutions in relation to the Set-off Arrangement at the SGM .

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He has been formed to advise the Independent Shareholders on the Open Offer, the Underwriting Agreement and the Set-off Arrangement. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, in particular as to whether the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable and 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, and how the Independent Shareholders should vote on the relevant resolution(s) in relation to the Open Offer, the Underwriting Agreement and the Set-off Arrangement at the SGM. Our appointment has been approved by the Independent Board Committee.

LETTER FROM HOORAY CAPITAL

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company pursuant to Rule 17.96 of the GEM Listing Rules. We have not acted as the independent financial adviser for the Company's other transactions in the past two years. We are not aware of the existence of or change in any circumstances that would affect our independence. In addition, apart from the normal professional fee payable to us by the Company in connection with our appointment as the independent financial adviser, no other arrangement exists whereby we shall receive any other fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider that we are eligible to give independent advice on the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management. We have assumed that all information, facts, representation, opinions and statements made or referred to in the Circular were true, accurate and complete in all material aspects as at the Latest Practicable Date and will remain so up to the date of the SGM, and the Company will notify the Independent Shareholders of any material changes to such information, facts, representations, opinions and statements as soon as possible. In addition, we have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on such information. We, however, have not conducted any independent investigation or audit into the businesses, affairs, financial position or the future prospects of any members of the Group and the related subject of, and parties to, the Underwriting Agreement and the Set-off Arrangement, nor have we carried out any independent verification of the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion stated hereinunder.

We have not considered the tax consequences (if any) on (1) the Independent Shareholders arising from the subscription for, holding of, or dealing in, the Offer Shares or exercising any right attached thereto or otherwise; and (2) any relevant Shareholders in relation to the Set-off Arrangement, since these are particular to their individual circumstances. Any Shareholders who are in any doubt as to their tax position, or who are subject to overseas tax or Hong Kong taxation on securities dealing, should consult their own professional advisers without delay.

All the Directors jointly and severally accept full responsibility for the accuracy of the information, facts and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinion expressed as well as statements made in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

LETTER FROM HOORAY CAPITAL

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which solely for their consideration of whether to approve of the Open Offer, the Underwriting Agreement and the Set-off Arrangement and the matters contemplated thereunder and, save for its inclusion in the Circular and the Prospectus Documents, 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.

A. OPEN OFFER

Principal Factors and Reasons Considered

In formulating our opinion and recommendation in relation to the Open Offer, we have taken into account the principal factors and reasons set out below:

1. *Principal Terms of the Open Offer*

I. Issue Details:

Basis of the Open Offer:	(3) Offer Shares for every one (1) Share held on the Record Date and payable in full on acceptance
Subscription Price:	HK\$0.035 per Existing Share (or HK\$0.35 per New Share)
Number of Shares in issue as at the Latest Practicable Date:	1,319,484,534 Shares (equivalent to 131,948,453 New Shares if the Share Consolidation has become effective)
Number of Offer Shares:	Not less than 3,958,453,602 Existing Shares and not more than 4,053,836,574 Existing Shares (or not less than 395,845,359 New Shares and not more than 405,383,652 New Shares)
Number of Offer Shares agreed to be taken up or procured to be taken up by Mr. Wang and his associates pursuant to the Wang's Undertaking:	Mr. Wang has given the Wang's Undertaking in favour of the Company and RHB Securities that (i) he will subscribe for or procure subscription for an aggregate of 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) to which Mr. Wang and his associates are entitled under the Open Offer; and (ii) he will not convert the Convertible Bonds and the 324,750 Share Options held by him on or before the Record Date.

LETTER FROM HOORAY CAPITAL

Underwriter:	The Open Offer is fully underwritten by RHB Securities Hong Kong Limited on the terms and subject to the conditions as set out in the Underwriting Agreement (save and except the Wang's Undertaking).
Number of Offer Shares underwritten by the Underwriter:	(i) Assuming the Share Consolidation has not become effective, being not less than 2,775,733,653 Offer Shares (assuming no Share Options were exercised on or before the Record Date) and not more than 2,871,116,625 Offer Shares (assuming all the Share Options (save for 324,750 Share Options held by Mr. Wang) are exercised on or before the Record Date); or (ii) assuming the Share Consolidation has become effective, being not less than 277,573,365 Offer Shares and not more than 287,111,658 Offer Shares, being the minimum and maximum number of the Offer Shares less the aggregate number of the Offer Shares agreed to be taken up pursuant to the Wang's Undertaking.
Number of enlarged Shares in issue upon completion of the Open Offer:	Not less than 5,277,938,136 Existing Shares and not more than 5,405,115,432 Existing Shares (or not less than 527,793,812 New Shares and not more than 540,511,536 New Shares)
Status of the Offer Shares:	<p>The Offer Shares (when allotted, fully paid or credited as fully paid and issued) will rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Offer Shares.</p> <p>Holder of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.</p>

As at the Latest Practicable Date, the Company had 32,119,074 outstanding Share Options (of which includes 324,750 Share Options held by Mr. Wang that falls under the Wang's Undertaking) which entitled the holders to subscribe for an aggregate of 32,119,074 Existing Shares on or before the Record Date, and Convertible Bonds entirely own to Mr. Wang which can convert and subscribe up to 94,142,021 Existing Shares.

After taking into the account of the Wang's Undertaking, as at the Latest Practicable Date, the Company had outstanding Share Options (excluding 324,750 Share Options held by Mr. Wang), entitling the holders of Share Options to subscribe for an aggregate of 31,794,324 Existing Shares. Assuming full exercise

LETTER FROM HOORAY CAPITAL

of the subscription rights attaching to the outstanding Share Options (excluding 324,750 Share Options held by Mr. Wang) on or before the Record Date, an additional 31,794,324 Existing Shares will be issued. Save as aforementioned, the Company had no other derivatives, outstanding convertible securities, options and warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Save for (i) the Convertible Bonds convertible into up to 94,142,021 Existing Shares; and (ii) the outstanding Share Options granted under the Share Option Scheme, the Company does not have any other derivatives, outstanding convertible securities, options and warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date. However, the Convertible Bonds are under the Wang's Undertaking which shall not be converted on or before the Record Date and as long as the Wang's Undertaking is in effect. The Company has no intention to issue or grant any warrants, options and/or convertible securities on or before the Record Date.

After taking into the account of the Wang's Undertaking, assuming (i) no further issue of new Existing Shares or repurchase of Existing Shares; (ii) none of the Convertible Bonds were converted on or before the Record Date; and (iii) no outstanding Share Options were exercised on or before the Record Date, the 3,958,453,602 Offer Shares (or 395,845,359 Offer Shares if the Share Consolidation has become effective) are proposed to be allotted and issued, represents (a) 300% of the Company's issued share capital as at the date of the Announcement and the Latest Practicable Date; and (b) 75% of the Company's issued share capital as enlarged by the allotment and issue of the 3,958,453,602 Offer Shares (or 395,845,359 Offer Shares if the Share Consolidation has become effective) immediately after completion of the Open Offer.

The Open Offer is fully underwritten by the Underwriter (save and except the Wang's Undertaking) on the terms and subject to the conditions set out in the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Underwriter shall ensure that the Company will maintain the minimum public float requirement in compliance with Rule 11.23 of the GEM Listing Rules.

The Open Offer is conditional upon, inter alia, the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the latest time for termination and the passing of the resolution(s) at the SGM to approve the Open Offer, the Underwriting Agreement and the Set-off Arrangement.

LETTER FROM HOORAY CAPITAL

II. Subscription Price

The Subscription Price is HK\$0.035 per Existing Share (or HK\$0.35 per New Share), payable in full on application. The Subscription Price represents:

- (i) a discount of approximately 80.34% to the closing price of HK\$0.178 per Existing Share as quoted on Stock Exchange on the Last Trading Day (the “**Last Trading Date Price**”) (or HK\$1.78 per New Share);
- (ii) a discount of approximately 50.70% to the theoretical ex-entitlement price of approximately HK\$0.071 per share as adjusted for the effect of the Open Offer based on the closing price of HK\$0.178 per Existing Share as quoted on the Stock Exchange on the Last Trading Day (or HK\$0.708 per share after taking into account the Share Consolidation) (the “**Theoretical Ex-entitlement Price**”);
- (iii) a discount of approximately 80.34% to the average closing price of approximately HK\$0.178 per Existing Share for the last five consecutive trading days including and up to the Last Trading Day (or HK\$1.78 per New Share);
- (iv) a discount of approximately 94.53% to the net asset value per Existing Share of the Company of approximately HK\$0.64 based on the unaudited consolidated financial statements of the Company as at 30 June 2015 and 1,319,484,534 Existing Shares in issue as of the Last Trading Day (or HK\$6.4 per New Share); and
- (v) a discount of approximately 55.13% to the closing price of HK\$0.078 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date (or HK\$0.78 per New Share).

The Subscription Price was arrived at after arm’s length negotiation between the Company and the Underwriter with reference to, among other things (i) the prevailing market price of the Existing Shares which was on a declining trend in the past six months prior to the entering into of the Underwriting Agreement. Monthly average closing prices of the Existing Shares declined from approximately HK\$0.340 per Existing Share in July 2015 to approximately HK\$0.201 per Existing Share in December 2015, representing a decrease of approximately 40.80%. Trading price of the Existing Shares further declined after December 2015 which closed at HK\$0.178 as at the date of the Underwriting Agreement, representing a drop of approximately 11.62% from the monthly

LETTER FROM HOORAY CAPITAL

average closing price in December 2015; (ii) the uncertainty of current market volatility; (iii) the financial position of the Group which has been loss making for the years ended 31 December 2013 and 2014 and the Group still recorded net loss for the nine months ended 30 September 2015; and (iv) the thin trading volume of the Existing Shares which also demonstrated a downward trend during October 2015 to December 2015. Average daily trading volume of the Existing Shares in October 2015, November 2015 and December 2015 are approximately 0.05%, 0.04% and 0.03% respectively of the total issued Existing Shares as at the date of the Underwriting Agreement.

Taking into consideration of the above and to reflect the absence of the excess application arrangement to the Qualifying Shareholders, the Subscription Price is intended to be set at a relatively deep discount with an objective to lower the further investment cost of the Qualifying Shareholders to encourage them to take up their entitlements and to participate in the potential growth of the Company. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company.

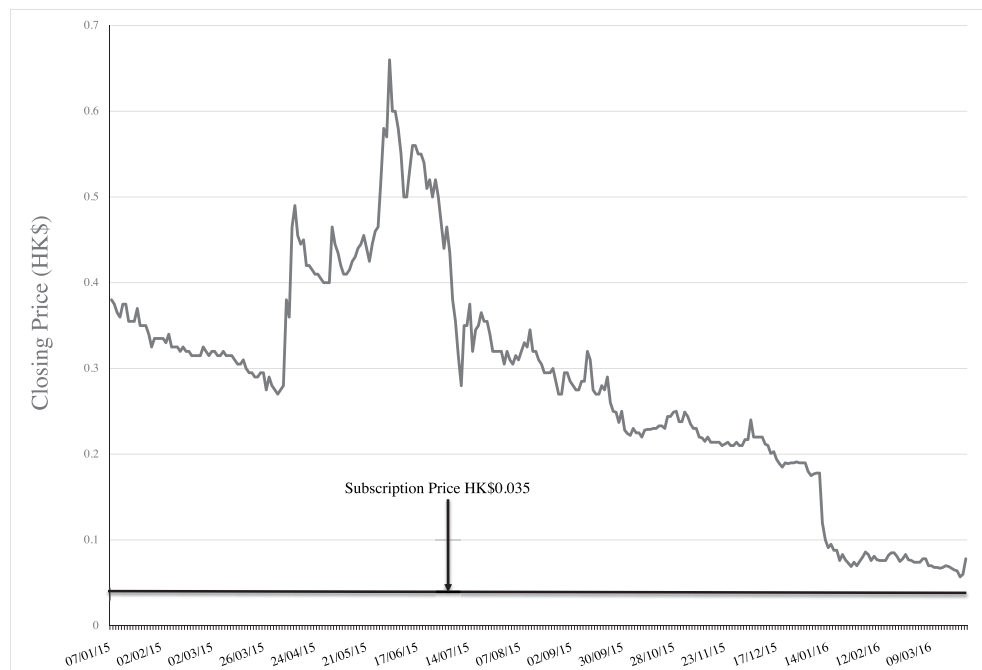
After deducting all relevant expenses relating to the Open Offer, the net price per Offer Share will be approximately HK\$0.034 per Existing Share or HK\$0.337 per New Share (assuming no exercise of all outstanding and exercisable Share Option and no issuance and repurchase of Shares by the Company on or before the Record Date) or approximately HK\$0.034 per Existing Share or HK\$0.337 per New Share (assuming full exercise of all outstanding and exercisable Share Options (save for 324,750 Share Options held by Mr. Wang) and no issuance of new Shares and repurchase of Shares by the Company on or before the Record Date).

We were given to understand that the Company has approached three other underwriters, in addition to the Underwriter, trying to obtain the best available terms for the underwriting of the proposed open offer of the Company but no positive feedbacks were received from those underwriters. Neither of the three underwriters showed interest in providing underwriting service for the Company's proposed open offer given the size of the Open Offer, the Company's business scale, the financial performance of the Group and the recent uncertainty in the financial market. Given no positive feedback were received from those underwriters, the Underwriter is the only available securities house who agreed to provide underwriting service for the Open Offer.

LETTER FROM HOORAY CAPITAL

In order to assess the fairness and reasonableness of the Subscription Price (without adjusted to the Share Consolidation), we have reviewed the movements in the closing price of the Shares during the period from 7 January 2015, being 12 months immediately preceding the date of the Underwriting Agreement, to the Latest Practicable Date without adjusted to the Share Consolidation (the “**Review Period**”). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Existing Shares for conducting a reasonable comparison between the Closing Price and the Subscription Price (without adjusted to the Share Consolidation).

Chart 1 — Closing price of the Existing Shares during the Review Period



Source: the website of the Stock Exchange.

LETTER FROM HOORAY CAPITAL

As illustrated in the above chart, the Existing Shares were traded above the Subscription Price (without adjusted to the Share Consolidation) throughout the Review Period with an average closing price of the Existing Shares of approximately HK\$0.282. The highest closing price of the Existing Shares and the lowest closing price of the Existing Shares in the Review Period were HK\$0.660 per Existing Share on 2 June 2015 and HK\$0.057 per Existing Share on 21 March 2016, respectively. The Subscription Price (without adjusted to the Share Consolidation) represents a discount of approximately 94.70%, 38.60% and 87.58% to the highest, lowest and average closing price of the Existing Shares during the Review Period, respectively, and we consider that setting the subscription price at discount level is a normal market practice for companies conducting open offers, which can increase the attractiveness of the open offer to the qualifying shareholders and to encourage them to participate in the open offer and accordingly maintain their shareholdings in the company and participate in the future development of the group.

We note that the closing price of the Existing Shares during the Review Period represents an overall downward trend due to the unexpected adverse condition of the stock market (i.e. the turmoil of the Hong Kong stock market due to, inter alia, the adverse economic conditions in China). Therefore, we would like to remind the Shareholders that as there is still a period of time until the latest time of acceptance for the Open Offer, the Shareholders should pay attention to the movement of the Share price in the near future in order to make decision in relation to the acceptance of the Open Offer.

We have also reviewed the historical trading volume of the Existing Shares during the Review Period. The average daily trading volume of the Existing Shares, the percentages of daily trading volume of the Existing Shares as compared to the total number of issued Existing Shares and the total number of issued Existing Shares held by the public during the Review Period are shown in Table 1 below.

LETTER FROM HOORAY CAPITAL

Table 1 — Historical average daily trading volume of the Existing Shares

Month	Average daily trading volume of the Existing Shares	% of average daily trading volume of the Existing Shares to the total number of issued Existing Shares <i>(Note 1)</i>	% of average daily trading volume of the Existing Shares to the total number of issued Existing Shares in public hands <i>(Note 2)</i>
2015			
January <i>(Note 3)</i>	634,239	0.048%	0.069%
February	219,917	0.017%	0.024%
March	596,594	0.045%	0.064%
April	4,898,470	0.371%	0.529%
May	5,344,030	0.405%	0.578%
June	3,824,313	0.290%	0.413%
July	1,982,916	0.150%	0.214%
August	555,786	0.042%	0.060%
September	1,734,700	0.131%	0.187%
October	623,950	0.047%	0.067%
November	560,048	0.042%	0.061%
December	396,727	0.030%	0.043%
2016			
January	2,150,475	0.163%	0.232%
February	1,513,553	0.170%	0.164%
March <i>(Note 4)</i>	3,182,219	0.241%	0.344%

Source: the website of the Stock Exchange and Bloomberg.

Notes:

1. Calculated based on 1,319,484,534 Existing Shares in issue as at the date of the Underwriting Agreement.
2. Calculated based on 925,244,551 Existing Shares in issue held in public hands as at the date of the Underwriting Agreement.
3. Represents trading volume for the period from 7 January 2015 to 31 January 2015.
4. Represents trading volume for the period from 1 March 2016 to the Latest Practicable Date.

LETTER FROM HOORAY CAPITAL

Table 1 demonstrates that during the Review Period, the percentage of the average daily trading volume of the Existing Shares were in the range of approximately 0.017% to 0.405% as to the total number of issued Existing Shares as at the date of the Underwriting Agreement and approximately 0.024% to 0.578% as to the total number of issued Existing Shares held in public hands as at the date of the Underwriting Agreement. The above statistics revealed that the liquidity of the Existing Shares was relatively low.

Table 2 — Comparison between average daily turnover of the Existing Shares and the market average daily turnover

Month	% of average daily turnover of the Hong Kong securities market to the total market capitalisation of all listed securities on the Stock Exchange <i>(Note 1)</i>	% of average daily turnover of the Existing Shares to the total market capitalisation of the Company <i>(Note 2)</i>
2015		
January	0.378%	0.062%
February	0.263%	0.019%
March	0.337%	0.057%
April	0.646%	0.434%
May	0.505%	0.389%
June	0.491%	0.404%
July	0.472%	0.184%
August	0.398%	0.051%
September	0.354%	0.178%
October	0.317%	0.052%
November	0.307%	0.050%
December	0.250%	0.032%

Source: the website of the Stock Exchange and Bloomberg.

Notes:

1. Calculated based on the average daily turnover of the Hong Kong securities market (both Main Board and GEM) over the month-end total market capitalization of all listed securities on the Stock Exchange (both Main Board and GEM).
2. Calculated based on the monthly average daily turnover of the Existing Shares over the month-end total market capitalization of the Company.

LETTER FROM HOORAY CAPITAL

Table 2 demonstrates that in 2015 the percentage of the average daily turnover of the Hong Kong securities market were in the range of approximately 0.250% to 0.646% as to the month-end total market capitalization of all listed securities on the Stock Exchange where the percentage of the average daily turnover of the Existing Shares were in the range of approximately 0.019% to 0.434% as to the month-end total market capitalization of the Company. The above statistics suggested that the liquidity of the Existing Shares was comparatively low.

Having considered the thin liquidity of the Existing Shares which illustrated in Table 1 and 2, we concur with the Directors' view that it is fair and reasonable and interests of the Company and the Shareholders as a whole to set the Subscription Price (without adjusted to the Share Consolidation) below the prevailing market price of the Existing Shares so as to (i) encourage the existing Qualifying Shareholders to take up their entitlements under the Open Offer; and (ii) induce the Underwriter to participate in the underwriting of the Underwritten Shares.

To further evaluate the fairness and reasonableness of the Open Offer, we also considered a broad comparison of open offers conducted by other companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange. Based on the information available on the Stock Exchange's website, we have reviewed, so far as we are aware of, all the open offers announced by the companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange, save for the open offers announced by the companies which have been suspended in trading for more than 3 months preceding the dates of their respective announcements in relation to the open offer transactions (the "**Comparables**") during the period from 7 July 2015, being 6 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "**Comparable Period**"), which is considered to be exhaustive for comparison purposes. Having considered the recent volatility of the Hong Kong stock market and that the Comparable Period is reasonably long enough to (i) reflect the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) include sufficient number of transactions for comparison purposes; and (iii) allow the Shareholders to have a general understanding of the recent open offer transactions being conducted in the Hong Kong stock market, we considered that the Comparable Period is adequate.

Given that the terms of open offers of the Comparables were determined under similar market conditions and sentiments as those when the terms of the Open Offer were determined and reflect the recent trend of the open offer transactions in the market, we are of the opinion that the Comparables are fair and representative samples for comparison purposes. We noted that the principal businesses of the Comparables are not directly comparable to those engaged by the Company. However, we consider that an industry comparison would not be relevant as more emphasis would be put on other factors such as size of funds to be raised, market

LETTER FROM HOORAY CAPITAL

conditions, share price and financial conditions of the company at the time when the terms of open offers are determined. Details of the trading statistics of the Comparables are summarized in Table 3 below:

Table 3 — Trading statistics of the Comparables

Company name (stock code)	Date of announcement	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day	the theoretical ex- entitlement price	Commission rate	Maximum dilution (Note 1)	Excess application Yes/No
	<i>(DD/MM/YYYY)</i>		%	%	%	%	
Sau San Tong Holdings Limited (8200)	07/07/2015	1 for 1	(12.28)	(6.54)	2.50	50.00	No
Tai Shing International (Holdings) Limited (8103)	14/07/2015	1 for 2	(43.55)	(33.96)	3.00	33.33	No
China Environmental Resources Group Limited (1130)	17/07/2015	1 for 2	(41.41)	(32.08)	2.00	33.33	No
Ding He Mining Holdings Limited (705)	21/07/2015	1 for 2	(54.95)	(44.75)	2.50	33.33	No
China 33 Media Group Limited (8087)	24/07/2015	7 for 1	(75.61)	(28.57)	1.50	87.50	No
Golden Meditech Holdings Limited (801)	27/07/2015	1 for 2	(7.41)	(4.76)	2.00	33.33	Yes
International Standard Resources Holdings Limited (91)	30/07/2015	1 for 4	(34.12)	(29.29)	2.50	20.00	Yes
U-Home Group Holdings Limited (2327)	04/08/2015	1 for 2	(17.46)	(12.36)	1.65 (Note 2)	33.33	Yes
Neo Telemedia Limited (8167)	11/08/2015	1 for 2	(77.51)	(69.67)	1.50	33.33	No
Huili Resources (Group) Limited (1303)	12/08/2015	1 for 2	(57.26)	(47.20)	3.40	33.33	Yes
Lerado Group (Holding) Company Limited (1225)	14/08/2015	3 for 1	(68.09)	(34.78)	2.00	75.00	No
Group Sense (International) Limited (601)	20/08/2015	1 for 1	(44.44)	(28.57)	1.00	50.00	Yes
Legend Strategy International Holdings Group Company Limited (1355)	28/08/2015	1 for 4	(36.51)	(31.62)	1.50	20.00	No

LETTER FROM HOORAY CAPITAL

Company name (stock code)	Date of announcement	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day	the theoretical ex- entitlement price	Commission rate	Maximum dilution (Note 1)	Excess application
	<i>(DD/MM/YYYY)</i>		%	%	%	%	<i>Yes/No</i>
Megalogic Technology Holdings Limited (8242)	01/09/2015	3 for 1	(29.82)	(9.50)	3.00	75.00	No
Flying Financial Service Holdings Limited (8030)	07/09/2015	1 for 2	(48.05)	(38.18)	2.50	33.33	Yes
Kingwell Group Limited (1195)	08/09/2015	1 for 9	(46.67)	(44.06)	3.00	10.00	No
China Investment and Finance Group Limited (1226)	09/09/2015	8 for 1	(64.79)	(16.94)	1.50	88.89	No
SEEC Media Group Limited (205)	09/09/2015	5 for 1	(67.95)	(25.93)	2.00	75.00	No
eForce Holdings Limited (943)	16/09/2015	4 for 1	(61.60)	(24.30)	3.00	80.00	Yes
Zhi Cheng Holdings Limited (8130)	02/10/2015	1 for 2	(77.78)	(70.00)	4.00	33.33	No
Shihua Development Company Limited (485)	07/10/2015	4 for 1	(82.52)	(48.56)	2.00	80.00	No
Ausnutria Dairy Corporation Ltd (1717)	29/10/2015	1 for 10	6.28	5.77	0.00	9.09	Yes
Merry Garden Holdings Limited (1237)	30/10/2015	1 for 2	(29.80)	(9.80)	1.00	33.33	No
UDL Holdings Limited (620)	02/11/2015	2 for 5	(6.06)	(4.32)	0.00	28.57	Yes
PPS International (Holdings) Limited (8201)	06/11/2015	1 for 2	(58.06)	(48.00)	2.50	33.33	No
Wealth Glory Holdings Limited (8269)	09/11/2015	1 for 2	(27.10)	(19.50)	3.50	33.33	No
Timeless Software Limited (8028)	20/11/2015	1 for 5	(39.39)	(35.06)	2.00	16.67	Yes
Deson Development International Holdings Limited (262)	27/11/2015	1 for 2	(40.70)	(31.90)	3.50	33.33	No
Kong Shum Union Property Management (Holding) Limited (8181)	03/12/2015	3 for 1	(55.56)	(24.05)	2.50	75.00	Yes
China Billion Resources Limited (274)	16/12/2015	2 for 1	(82.76)	(61.54)	3.00	66.67	No
QPL International Holdings Limited (243)	07/01/2016	5 for 1	(65.96)	(24.35)	1.50	83.33	No
Creative Energy Solutions Holdings Limited (8109)	14/01/2016	5 for 2	(55.56)	(26.38)	2.00	71.43	No

LETTER FROM HOORAY CAPITAL

Company name (stock code)	Date of announcement	Basis of entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day	the theoretical ex- entitlement price	Commission rate	Maximum dilution (Note 1)	Excess application
	<i>(DD/MM/YYYY)</i>		%	%	%	%	<i>Yes/No</i>
China Green (Holdings) Limited (904)	19/01/2016	2 for 1	(46.67)	(22.58)	2.50	66.67	No
AMCO United Holding Limited (630)	20/01/2016	1 for 2	(67.50)	(58.10)	2.50	33.33	No
China Ruifeng Renewable Energy Holdings Limited (527)	28/01/2016	1 for 5	(1.3)	(1.1)	2.00	16.67	Yes
China Demeter Investments Limited (8120)	23/02/2016	1 for 2	(26.47)	(19.35)	3.50	33.33	No
Sunway International Holdings Limited (58)	26/02/2016	3 for 2	(55.56)	(33.33)	2.50	60.00	No
The Grande Holdings Limited (186)	07/03/2016	5 for 2	(78.78)	(51.47)	0.00	71.43	No
Grand Peace Group Holdings Limited (8108)	11/03/2016	10 for 1	(22.58)	15.38	3.50	90.91	No
Maximum			6.28	15.38	4.00	90.91	
Minimum			(82.76)	(70.00)	0.00	9.09	
Average			(46.24)	(29.01)	(2.21)	(47.89)	
The Company (8270)	07/01/2016	3 for 1	(80.34)	(50.70)	3.50	75.00	No

Source: the website of the Stock Exchange.

Note:

- Maximum dilution effect of each open offer is calculated as: ((number of offer shares to be issued under the basis of entitlement)/(number of offer shares to be issued under the basis of entitlement + number of existing shares held for the entitlement for the open offer under the basis of entitlement) x 100%), e.g. for an open offer with basis of three (3) offer shares for every one (1) existing share, the maximum dilution effect is calculated as $((3)/(3+1))*100\% = 75.00\%$.
- Various commission rates were offered by the underwriters of the open offer. The weighted average commission rate of approximately 1.7% was used for comparison purposes.

LETTER FROM HOORAY CAPITAL

We noted from Table 3 that 38 out of 39 of the Comparables had set the subscription price of their open offers at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the open offers were made. We, therefore, consider that it is a normal market practice for companies to set the subscription price of open offers at a discount to the prevailing market price of the relevant shares so as to encourage the qualifying shareholders to participate in the open offers.

As illustrated in Table 3, the subscription prices of the Comparables were set in the range from a discount of approximately 82.76% to a premium of approximately 6.28% over their respective closing prices as quoted on the last trading day prior to the date of the relevant open offer announcements. The discount of approximately 80.34% of the Subscription Price (without adjusted to the Share Consolidation) to the closing price of the Existing Shares on the Last Trading Day falls within the range of those of the Comparables and it is higher than the average discount of the Comparables of approximately 46.24%.

The subscription prices of the Comparables represent a range from a discount of approximately 70.00% to a premium of approximately 15.38% over their respective theoretical ex-entitlement prices as quoted on the last trading day prior to the date of the relevant open offer announcements. The discount of approximately 50.70% of the Subscription Price (without adjusted to the Share Consolidation) to the theoretical ex-entitlement prices of the Existing Shares on the Last Trading Day falls within the range of those of the Comparables and it is higher than the average discount of the Comparables of approximately 29.01%.

Based on the above analysis and the facts that (i) the Existing Shares were traded above the Subscription Price (without adjusted to the Share Consolidation) throughout the Review Period; (ii) the liquidity in trading of the Existing Shares was relatively low during the Review Period; (iii) the Company recorded unaudited consolidated net loss (after tax) for the two years ended 31 December 2013 and 2014 and for the nine months ended 30 September 2015; (iv) it is common for the listed companies in Hong Kong to set the subscription price of open offers at a discount to the market price of the shares in order to enhance the attractiveness of an open offer transaction; (v) the discounts of the Subscription Price (without adjusted to the Share Consolidation) to the closing price of the Existing Shares on the Last Trading Day and to the theoretical ex-entitlement price fall within the range of the Comparables; (vi) no positive feedback was received from three other underwriters approached by the Company for the underwriting of the Open Offer; (vii) the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter, and having considered that (1) a lower Subscription Price shall encourage the existing Qualifying Shareholders to take up their entitlements under the Open Offer; (2) each Qualifying Shareholder will be entitled to subscribe for the Offer Shares at the same Subscription Price in proportion to his/her/its shareholding held on the Record Date which represents the interest of the Qualifying Shareholders will not

LETTER FROM HOORAY CAPITAL

be prejudiced by the discount of the Subscription Price and will have an equal and fair opportunity to participate in the Open Offer and subscribe for the Offer Shares; (3) a relatively deep discount of the subscription price to the market price of the Existing Shares is necessary to induce the Underwriter to participate in the underwriting of the Underwritten Shares so as to enhance the marketability of the Shares, we consider that even the Subscription Price (without adjusted to the Share Consolidation) to the Close Price/theoretical ex-entitlement price of the Existing Shares on the Last Trading Day is substantially higher than that of the average discount of the Comparables and/or in the high end of the discount range of the Comparables, such deep discount on the Subscription Price is justifiable and the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter and is fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned and is in the interest of the Company and Shareholders as a whole.

III. No Application for Excess Offer Shares

As stated in the "Letter from the Board" contained in the Circular, the Board have considered that the Open Offer will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company and the Company shall incur additional effort and costs to administer the excess application procedures, including preparing and arranging the excess application, reviewing the relevant documents, liaising with professional parties and printing of application forms, etc. It is also estimated that an additional cost of not less than HK\$100,000 to administer the excess application procedures will be incurred if application of excess Offer Shares is made available to the Qualifying Shareholders. The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2014 of approximately RMB333.35 million and approximately RMB20.19 million for the nine months ended 30 September 2015. Accordingly, such costs might not be justifiable under the recent financial performance of the Group. Accordingly, no excess Offer Shares will be offered to the Qualifying Shareholders and, save for the Offer Shares to be taken up pursuant to the Wang's Undertaking, any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriter on the terms and subject to the conditions as set out in the Underwriting Agreement.

As set out in Table 3, 27 out of 39 Comparables did not offer excess application for their open offers. Given the arrangement of application for excess offer shares were absent in majority number of open offers of the Comparables, we consider that the arrangement of no application for excess offer shares is a common market practice and the Company's arrangement is in line with the common market practice.

LETTER FROM HOORAY CAPITAL

Although the absence of excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, we consider that the absence of application for excess Offer Shares arrangement, on balance, is acceptable and equitable so far as the Independent Shareholders are concerned given that (i) the Open Offer allows the Qualifying Shareholders to exercise their rights to subscribe for the Offer Shares with an equal and fair chance; (ii) the Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer; (iii) the arrangement of excess application would increase the administrative costs of the Open Offer to the Company; and (iv) such arrangement (no application for excess offer shares) is in line with common market practice.

IV. The Underwriting Arrangement (as amended and supplemented by the Supplemental Underwriting Agreement)

Date: 7 January 2016 (after trading hours) and 15 March 2016 (after trading hours)

Parties: (i) the Company; and
(ii) RHB Securities

Number of Offer Shares underwritten: Pursuant to the Underwriting Agreement, RHB Securities has conditionally agreed to underwrite the Offer Shares (other than the Offer Shares agreed to be taken up pursuant to the Wang's Undertaking) which have not been taken up (the "**Untaken Shares**"). Accordingly, the Open Offer is fully underwritten.

Number of Offer Shares: Not less than 3,958,453,602 Existing Shares and not more than 4,053,836,574 Existing Shares (or not less than 395,845,359 New Shares and not more than 405,383,652 New Shares)

Commission: 3.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares (i.e. 2,871,116,625 Existing Shares or 287,111,658 New Shares) payable to the RHB Securities.

Underwriter: The Open Offer is fully underwritten by RHB Securities on the terms and subject to the conditions as set out in the Underwriting Agreement, save and except the Wang's Undertaking.

LETTER FROM HOORAY CAPITAL

The terms of the Underwriting Agreement are agreed after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Open Offer, and the current and expected market condition.

We were given the understanding that the Underwriter has agreed to ensure that at least 25% of the total issued share capital of the Company would be held by the public at all times such that the public float requirements under Rules 11.23 of the GEM Listing Rules would be complied with by the Company after the Open Offer. In the event that there is insufficient public float of the Shares within the meaning of the GEM Listing Rules immediately upon completion of the Open Offer solely because of the Underwriter's performance of its obligations pursuant to the Underwriting Agreement, the Underwriter agrees to take such appropriate steps as may be reasonably required to maintain the minimum public float for the Shares in compliance with Rule 11.23 of the GEM Listing Rules and the Underwriter will use its best endeavours to ensure that the subscribers and/or sub-underwriters are (i) Independent Third Parties; and (ii) will not hold 10% or more of the equity interest and voting rights in the Company upon completion of the Open Offer. The Underwriter will also ensure that at least 25% of the total issued capital of the Company would be held by the public at all times such that the public float requirements under Rule 11.23 of the GEM Listing Rules would be complied with by the Company.

We noted that the commission payable to the Underwriter in relation to the Open Offer is 3.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares (i.e. 2,871,116,625 Existing Shares or 287,111,658 New Shares). We are advised that such commission rate was determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the scale of the Open Offer and the market rate and no positive feedback was received from three other underwriters approached by the Company for the underwriting of the Open Offer. Given the fact that such commission rate is higher than the average discount of the Comparables of approximately 2.21% in Table 3 but it falls within the range of those of the Comparables, we concur with the Board to consider that the underwriting commission rate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In respect of the Supplemental Underwriting Agreement, save for the terms stated therein as amended and supplemented to the Underwriting Agreement due to the revised expected timetable for the Open Offer (as set out in page 1 in the Circular) as well as to reflect the Share Consolidation (details of which are set out in page 12 of the Circular), all other terms and conditions of the Underwriting Agreement shall remain unchanged.

LETTER FROM HOORAY CAPITAL

We have reviewed the Underwriting Agreement and the Supplemental Underwriting Agreement, and are of opinion that both agreements are on normal commercial terms and are fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned.

2. *Financial Information of the Group*

The Group is principally engaged in the business of exploitation, liquefaction production and sales of natural gas in the PRC.

Set out below is certain summary of the unaudited consolidated financial information as extracted from the Group's (i) interim report for the six months ended 30 June 2015 (the "**2015 Interim Report**") and interim report for the six months ended 30 June 2014 (the "**2014 Interim Report**"); and (ii) third quarterly report for the nine months ended 30 September 2015 (the "**3rd Quarterly Report**"):

	For the nine months ended		For the six months ended	
	30 September	30 September	30 June	30 June
	2015	2014	2015	2014
	<i>RMB\$ '000</i>	<i>RMB\$ '000</i>	<i>RMB\$ '000</i>	<i>RMB\$ '000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover				
— Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services)	244,969	154,707	155,284	91,810
— Sales of piped natural gas and provision of gas supply connection services	5,101	34,442	2,908	20,720
	<u>250,070</u>	<u>189,149</u>	<u>158,192</u>	<u>112,530</u>
Gross profit/(loss)	19,526	(3,981)	9,468	(10,135)
(Loss)/profit before tax	(26,447)	(55,750)	(22,823)	(45,397)
(Loss)/profit after tax	(26,025)	(54,563)	(22,183)	(44,782)

LETTER FROM HOORAY CAPITAL

	As at 30 June 2015	As at 30 June 2014
	<i>RMB \$'000</i>	<i>RMB \$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Non-current assets	1,088,750	1,269,056
Current assets	227,692	256,141
	1,316,442	1,525,197
Total Asset		
Non-current liabilities	105,089	97,240
Current liabilities	498,585	444,369
	603,674	541,609
Total liabilities		
Net assets	712,768	983,588
Net assets attributable to equity shareholders of the Company	711,443	972,636

As set out in the 2014 Interim Report and 2015 Interim Report, the Group recorded a turnover of approximately RMB 112.53 million and RMB158.19 million for the six months ended 30 June 2014 and 30 June 2015, respectively, representing an increase of approximately 40.58% as compared to the preceding financial period. The increase in turnover was mainly generated from the increase in production of liquefied coalbed gas which contributed by the increase in number of coalbed methane wells in production. The Group recorded a gross profit of approximately RMB9.47 million for the six months ended 30 June 2015 as compared with a gross loss position for the six months ended 30 June 2014, which was mainly attributed to the increase in the sales of liquefied coalbed gas. The Group recorded an decrease in net loss (after tax) for the six months ended 30 June 2015 of approximately RMB22.18 million comparing with that of the corresponding period in 2014 of approximately RMB44.78 million which was primarily due to (i) increase in the production of liquefied coalbed gas; and (ii) decrease in the finance charges on bank and other borrowings.

As set out in the 3rd Quarterly Report, the Group recorded a turnover of approximately RMB250.07 million for the nine months ended 30 September 2015, representing an increase of approximately 32.21% as compared with the same period in previous year and a gross profit of approximately RMB19.53 million for the nine months ended 30 September 2015 which was mainly attributable to the decrease in the cost of liquefied coalbed gas as a result of an increase in the overall production of liquefied coalbed gas. The Group also recorded a decrease in net loss (after tax) for the nine months ended 30 September 2015 of approximately RMB26.03 million as compared with that of approximately RMB54.56 million for the nine months ended 30 September 2014. This was mainly attributable to the increase in the number of upstream wells and gas output, particular, with an increase in the proportion of self-produced liquefied coalbed gas.

LETTER FROM HOORAY CAPITAL

As set out in the 2014 Interim Report and 2015 Interim Report, total assets of the Group was approximately RMB1,525.20 million and RMB1,316.44 million as at 30 June 2014 and 30 June 2015, respectively, which mainly comprised of property, plant and equipment which accounted for approximately 50.38% and 64.50% of the Group's total assets, respectively. The decrease in total assets between the corresponding periods was primarily due to an impairment loss of approximately RMB243 million on goodwill and intangible assets were made for the year ended 2014. The Group recorded total liabilities of approximately RMB541.61 million and RMB603.67 million as at 30 June 2014 and 30 June 2015, respectively. Majority of which are trade and other payables, bank and other borrowings and obligations under finance leases. The increase in total liabilities between the corresponding periods was mainly attributed to the increase in bank and other borrowings of the Group.

3. *Future Plan of the Group*

According to the management of the Company, the Company will continue to engage in the business of exploitation, liquefaction production and sales of natural gas in the PRC. We are also advised that the Company currently does not have any plan for acquisition or investment, disposal or scaling-down of any current business. The Company intends to stabilize and increase the output of producing wells so as to strengthen its upstream business. Apart from constructing new wells, the Company continues to carry out technological upgrade to some old wells to improve production capacity and output.

4. *Reasons for the Open Offer and Proposed Use of Proceeds*

Pursuant to the indications given by the Directors and information contained in the Circular, the gross proceeds from the Open Offer will not be less than approximately HK\$119.41 million and not more than approximately HK\$122.74 million (before expenses and after taking into account of the Set-off Arrangement). The estimated minimum net proceeds from the Open Offer will be not less than approximately HK\$114.24 million (after expenses and after taking into account of the Set-off Arrangement).

The Board intends to apply the proceeds from the Open Offer as to (i) approximately 10% towards its general working capital; (ii) approximately 20% towards the prepayment on purchase of natural gas; (iii) approximately 40% towards the repayment to construction supplier(s); and (iv) approximately 30% for drilling and construction of wells and technical upgrade of wells. The estimated expenses in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses will be borne by the Company.

LETTER FROM HOORAY CAPITAL

We are advised by the Company that for the nine months ended 30 September 2015 the gas supply from self-owned wells only accounts approximately 26% of the total gas supply for the production of liquefied natural gas. The remaining balance of approximately 74% gas supply are purchased from two independent third parties. We have reviewed the relevant gas supply contracts entered between the Group and the independent gas suppliers, an upfront prepayment on the following month's gas supply prepaid by the Group is needed, the amount of which is principally based on the respective gas supply schedule at predetermined prices as agreed by both the Group and the independent gas suppliers.

According to the management of the Company, approximately 20% of the proceeds of the Open Offer budget for the prepayment on the purchase of natural gas (which is equivalent to approximately HK\$22.85 million or approximately RMB19.28 million at the conversion rate of RMB0.8438 to HK\$1) is sufficient for the Group to make an approximately two months equivalent of prepayment. This is intended to ensure stable gas supply for the production of liquefied natural gas, which is considered as beneficial to the Group.

In addition, we have also further studied the industry practice in relation to prepayment on the purchase of natural gas, and taking into account of the factors aforementioned, it is in our opinion that the prepayment on purchase of natural gas is in the ordinary course of business and is fair and reasonable so far as the Independent Shareholders are concerned.

As at 30 June 2015, pursuant to information provided by the Company, the outstanding balance due to the Group's construction suppliers was approximately RMB175.40 million. Approximately 51.90% of which were due to seven independent construction suppliers. As advised by the Company, approximately 40% of the proceeds from the Open Offer (which is equivalent to approximately HK\$45.70 million or approximately RMB38.56 million at the conversion rate of RMB0.8438 to HK\$1) will be used to offset due payables due to those construction suppliers and would be repaid on the terms and conditions pursuant to the respective contracts entered into between the Group and the construction suppliers. We have reviewed the relevant contracts and historical repayment invoices between the Group and those construction suppliers. Given the amounts due to those construction suppliers accounts approximately 51.90% of the total amounts due to all construction suppliers, we considered that we have reviewed sufficient information currently available to reach an informed view that the repayment to construction suppliers is in the ordinary course of business and is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM HOORAY CAPITAL

As advised by the Directors that in order to further expand the gas output of the Group, ground work and drilling will be conducted for six additional coalbed methane wells in 2016 which will incur capital expenditure of approximately RMB12.9 million. In addition, based on the stage of coalbed methane wells under construction, the Company estimated that an additional investment of approximately RMB30.60 million will be required to complete the construction of 51 coalbed methane wells that are under construction by the end of 2017, and it is expected that the construction of 25 (out of the 51) coalbed methane wells that are under construction will be completed in the next 12 months after the Latest Practicable Date which will incur capital expenditure of approximately RMB15 million. In respect of the technical upgrade of wells, the Directors indicated to us that technical upgrade of 30 existing coalbed methane wells by way of CBM wells workovers, hydraulic fracture stimulations and extraction facility improvement will be made and completed in the next 12 months after the Latest Practicable Date which will incur capital expenditure of approximately RMB3.6 million. As at Latest Practicable Date, as advised by the Company, the ground work and drilling for additional coalbed methane wells and the upgrade of existing coalbed methane wells have not been commenced.

Based on the drilling, construction and upgrade plans of the coalbed methane wells of the Group mentioned above, the total capital expenditure in relation to the drilling, construction and improvement of the coalbed methane wells is estimated to be approximately RMB31.50 million (which is equivalent to approximately HK\$37.33 million at the conversion rate of RMB0.8438 = HK\$1) in the next 12 months after the Latest Practicable Date. The proceeds of the Open Offer budget for the drilling and construction of wells and technical upgrade of wells is approximately HK\$34.27 million. The Company indicated that the short fall of approximately HK\$3.06 million will be funded by the internal resources of the Group.

In light of the above, we are of view that drilling, construction and upgrade plans of coalbed methane wells of the Group are in the ordinary course of business of the Group and is fair and reasonable so far as the Independent Shareholders are concerned.

Having considered that (i) the two year average of the finance costs ended 31 December 2014 of approximately RMB21.86 million; (ii) the total bank balances and cash of the Group as at 30 June 2015 of approximately RMB62.61 million; (iii) the estimated total capital expenditure of the Group within the next 12 months after the Latest Practicable Date, as advised by the Company, of approximately RMB31.50 million; (iv) trade and other payables and bank and other borrowings due by the Group have been consistent; and (v) confirmation of no significant change of the financial position of the Group by the management of Company (save for the financial impact due to the transactions undertook and announced by the Group), we are satisfied that the proceeds of approximately HK\$114.24 million (or approximately RMB96.40 million in the conversion rate of RMB0.8438 to HK\$1) raised from the Open Offer can satisfy the Company's expected funding needs for the next 12 months, in absence of unforeseen circumstances.

LETTER FROM HOORAY CAPITAL

The Company indicated that it has considered other fund raising alternatives before resolving to the Open Offer, including but not limited to debt financing, placement of new Shares and rights issue. We are advised that the Company has taken into account the following reasons before arriving at a conclusion that the Open Offer allows the Group to strengthen its capital adequacy without any adverse impact:

- (a) debt financing exercises such as bank borrowings will increase the gearing ratio of the Company and the Company will also have to bear the corresponding interest expenses that would worsen the liquidity of the Group (i.e. the Group had net current liabilities of approximately RMB270,893,000 as at 30 June 2015);
- (b) placing of new Shares will not allow all Qualifying Shareholders to have the equal opportunity to participate in the fund raising exercise and would result in dilution to their existing shareholding in the Company;
- (c) though rights issue enables those Qualifying Shareholders who do not wish to take up their entitlements to trade their nil-paid rights, the procedures for conducting rights issue would have incurred higher associated costs as compared to the Open Offer as well as required additional time for setting up trading arrangements of nil-paid rights; and
- (d) Open Offer enables all Qualifying Shareholders to maintain their proportionate interests in the Company should they so wish to do so, ensures stability in the Company's Shareholders' base, and allows Qualifying Shareholders to participate in the Company's future growth and development.

Based on the above, and having considered the recent financial performance of the Group and the use of proceeds are in the ordinary course of business of the Company, we concur with the view of the Directors that the Open Offer is an appropriate means for the Company to obtain the required funding and is in the interests of the Company and the Shareholders as a whole under the existing circumstances.

5. Possible Financial Effects of the Open Offer

(i) Net tangible assets

Based on the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2015 was approximately HK\$692.06 million. The estimated minimum net proceeds from the Open Offer (after expenses and taking into account of the Set-off Arrangement) is approximately HK\$114.24 million. As a result, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2015 would be approximately HK\$806.30 million (after expenses and taking into account of the Set-off Arrangement) immediately after the completion of the Open Offer.

LETTER FROM HOORAY CAPITAL

Accordingly, the unaudited consolidated net tangible assets of the Group per share as at 30 June 2015 would be adjusted from approximately HK\$5.245 to approximately HK\$1.528 (after expenses and taking into account of the Set-off Arrangement and assuming the Share Consolidation has become effective) (based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2015 after the Open Offer of approximately HK\$806.30 million (after expenses and taking into account of the Set-off Arrangement) and 527,793,812 New Shares in issue immediately following the completion of the Open Offer and assuming the Share Consolidation has become effective, of which comprises of the 131,948,453 New Shares in issue and a minimum of 395,845,359 Offer Shares to be issued pursuant to the Open Offer).

The adjusted consolidated net tangible assets of the Group per share, which taken into the effects aforementioned, would be approximately HK\$3.717 (after expenses and taking into account of the Set-off Arrangement and assuming the Share Consolidation has become effective) upon completion of Open Offer.

(ii) *Working capital*

Upon completion of the Open Offer, the cash and bank balance of the Group will be increased by the estimated minimum net proceeds of approximately of HK\$114.24 million (after expenses and taking into account of the Set-off Arrangement). Accordingly the working capital and liquidity position of the Group will be improved as a result of the Open Offer.

In light of the above, we consider the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(iii) *Potential dilution*

As the Open Offer is offered to all Qualifying Shareholders on the same basis, all Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their entitlements under the Open Offer in full. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of approximately 75.00% from their shareholding interest upon completion of the Open Offer.

In all cases of open offers, the dilution on the shareholding of those qualifying shareholders who do not take up in full their assured entitlements under the open offers is inevitable. In fact, the dilution magnitude of any open offer depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares, the greater the dilution on the shareholding would be.

LETTER FROM HOORAY CAPITAL

Having taken into account that (a) the Open Offer would enlarge the capital base of the Company; (b) the Company has not conducted any fund raising activities in the past twelve months immediately preceding the date of the Announcement and up to the Latest Practicable Date; (c) the Open Offer is on the basis that all Qualifying Shareholders will be offered; (d) all Qualifying Shareholders have the same opportunity to maintain their proportional interests in the Company and allows to participate in the growth of the Company; (e) the inherent dilutive nature of open offer in general; and (f) the positive impact on the financial position of the Group as a result of the Open Offer, we consider the potential dilution effect on the shareholding which may only happen to the Qualifying Shareholders who decide not to accept the Open Offer is justifiable.

Shareholders are reminded that the Open Offer and the Set-off Arrangement are inter-conditional and should note the aforementioned analysis are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Open Offer and the Set-off Arrangement.

B. THE SET-OFF ARRANGEMENT

Principal Factors and Reasons Considered

In formulating our opinion and recommendation in relation to the Set-off Arrangement, we have taken into account the principal factors and reasons set out below:

1. Principal Terms of the Set-off Arrangement

Each of Mr. Wang, the Company and the Underwriter acknowledge and agree that part of the total Subscription Price in the amount of HK\$19.14 million to be paid by Mr. Wang and his associate for their subscription under the Open Offer in respect of the 546,857,142 Offer Shares (or 54,685,714 Offer Shares if the Share Consolidation has become effective) among the 1,182,719,949 Offer Shares (or 118,271,994 Offer Shares if the Share Consolidation has become effective) will be set-off against the entire outstanding principal amount of the Convertible Bonds of HK\$21,238,440. Such set-off is conditional upon (i) Independent Shareholders' approval of the Open Offer and the Set-off Arrangement at the SGM by way of poll; and (ii) the Wang's Undertaking remains valid. Completion of the Set-off Arrangement shall take place simultaneously with the allotment and issuance of the Offer Shares by the Company pursuant to the terms of the Open Offer.

LETTER FROM HOORAY CAPITAL

2. *Principal Terms of the Convertible Bonds*

The principal terms of the Convertible Bonds that we considered as follow:

Holder as at the Latest Practicable Date: Mr. Wang

Principal amount: The face value of HK\$21,238,440.

Subscription price of the Convertible Bonds: The subscription price of the Convertible Bond is HK\$21,238,440, being the total principal amount of the Convertible Bonds.

Maturity Date: The fifth anniversary of the date of issue of the Convertible Bonds (the “**Maturity Date**”).

Interest: The Convertible Bonds shall bear no interest.

Conversion Price (the “**Conversion Price**”): HK\$0.2256 per Conversion Share (hereinafter defined), subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds (which is adjusted to HK\$2.256 per Conversion Share if the Share Consolidation has become effective, unless otherwise advised by the Company).

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;

LETTER FROM HOORAY CAPITAL

- (v) offer to Shareholders new Shares for subscription by way of rights, or shall grant to Shareholders 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;

- (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;

LETTER FROM HOORAY CAPITAL

- (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
- (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 by-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
(the “**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 from the Latest Practicable Date and up to completion of the Open Offer without the Share Consolidation), a maximum number of up to 94,142,021 Conversion Shares shall be allotted and issued upon exercise in full of the Conversion Rights (or in the case of the Share Consolidation, the Conversion Price will be adjusted to HK\$2.256 and a maximum number of up to 9,414,202 Conversion Shares shall be allotted and issued upon exercise in full of the Conversion Rights, unless otherwise advised by the Company).

Conversion Period:

The period commencing from the date of issue of the Convertible Bonds and ending on the Maturity Date

LETTER FROM HOORAY CAPITAL

Conversion Rights
(the “**Conversion Rights**”):

Subject to, and upon compliance with, the conditions of the instrument governing the Convertible Bonds and provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds 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 GEM Listing Rules, the Conversion Rights may be exercised by the holder of the Convertible Bonds 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 Convertible Bonds held by the holder of the Convertible Bonds is less than HK\$500,000, or if the holder of the Convertible Bonds intends to exercise the Conversion Rights attached to the entire principal amount of all the Convertible Bonds held by him, the holder of the Convertible Bonds may convert the whole (but not part only) of the such outstanding principal amount of the Convertible 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 Bonds that are not converted.

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 Bonds 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 GEM 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 two Business Days’ notice to the holder of the Convertible Bonds, redeem all or part of the outstanding Convertible Bonds.

LETTER FROM HOORAY CAPITAL

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

Status and ranking: The obligations of the Company arising under the Convertible Bonds 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.

The issuance of the Convertible Bonds under, inter alia, the above terms and conditions were approved by independent shareholders of the Company at the special general meeting of the Company on 3 December 2015.

3. *Adjustments events & Redemption*

Pursuant to the terms “Adjustment events” of the Convertible Bonds, the Open Offer represents an offer to Shareholders for subscription by way of rights 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”. As a result, under, the original conversion price of HK\$0.2256 shall be adjusted to HK\$0.0564 under the current basis of 3 Offer Shares for 1 Share, representing approximately 37.94% discount to the price of the Existing Shares as at the Latest Practicable Date, and the Convertible Bonds could convert into 376,568,085 Existing Shares upon conversion in full. In the case of the Share Consolidation, conversion price of HK\$2.256 shall be adjusted to HK\$0.564 under the basis of 3 Offer Shares for 1 Share and the Convertible Bonds could convert into 37,656,808 Shares upon conversion in full. The adjusted conversion price of HK\$ 0.0564 and HK\$0.564 (in the case of the Share Consolidation) (collectively referred herein as the “**Adjusted Conversion Price(s)**”).

Furthermore, pursuant to the terms “Redemption” of the Convertible Bonds, the Company may at any time before the Maturity Date (being the fifth anniversary of the date of issue of the Convertible Bonds), by giving not less than two Business Days’ notice to the holder of the Convertible Bonds, redeem all or part of the outstanding Convertible Bonds. The Directors consider that the Set-off Arrangement will enable the Group to repay part of the liabilities of the Company without incur cash outflow and will allow the Group to reduce its debt level. We have consulted with the Directors that in view of the Adjusted Conversion Price(s) is substantially below the trading price as at

LETTER FROM HOORAY CAPITAL

the date of the Set-off Arrangement, it was the intention of the Company to redeem the Convertible Bonds in the interests of the Company and Shareholders. Should there be no Set-off Arrangement, Mr. Wang would participate the Open Offer in cash in accordance with the terms of the Open Offer. Subsequently the Company would apply part of the proceeds from the Open Offer to redeem the Convertible Bonds at its face value of HK\$21,238,440 (assuming the Wang's Undertaking remains).

The Set-off Arrangement represents the same result of the redemption as stated above while the cost is lower than the original required sum (which is the face value of HK\$21,238,440 to be redeemed only at HK\$19,140,000). As a result from the Set-off Arrangement, the Company would avoid the issuance of 376,568,085 Existing Shares (equivalent to 37,656,808 New Shares) at the Adjusted Conversion Price(s) which is lower than the closing price of the Shares as at the Latest Practicable Date.

Having considered that (i) redemption of the Convertible Bond could avoid Adjusted Conversion Price(s) from taking place which is lower than the closing price of the Share as at the Latest Practicable Date and is not enjoyable by Independent Shareholders; (ii) the Set-off Arrangement represents a discount to the cost of redemption of the Convertible Bonds, we consider that the terms of the Set-off Arrangement are fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned. The Set-off Arrangement under the Open Offer, whilst not in the ordinary and usual course of business, is on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

4. *Possible financial effects of the Set-off Arrangement*

(i) Net tangible assets

Pursuant to the records of the Company, the Convertible Bonds was recorded at approximately HK\$20.13 million, being the initial recognition value of the Convertible Bonds. Such amount would be subtracted from the total consolidated liabilities of the Company upon the completion of the Set-off Arrangement. As a result, there would be an overall increase effect to the net tangible asset of the Company.

(ii) Working capital

Since the Set-off Arrangement would not incur cash outflow to the Company, there will be no impact on the working capital of the Company upon the completion of the Set-off Arrangement.

LETTER FROM HOORAY CAPITAL

(iii) Earnings

The set-off amount of the Convertible Bonds which falls under the Set-off Arrangement is HK\$19.14 million and the initial recognition value of the Convertible Bonds is approximately HK\$20.13 million. It is estimated that an overall gain of approximately HK\$0.99 million will be recorded in the profit and loss statement of the Company as a result of the Set-off Arrangement.

Shareholders are reminded that the Open Offer and the Set-off Arrangement are inter-conditional and should note the aforementioned analysis are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Open Offer and the Set-off Arrangement.

RECOMMENDATION

In respect of the Open Offer, having considered that:

- (i) a lower Subscription Price shall encourage the existing Shareholders to take up their entitlements under the Open Offer;
- (ii) each Qualifying Shareholder will be entitled to subscribe for the Offer Shares at the same Subscription Price in proportion to his/her/its shareholding held on the Record Date;
- (iii) a relatively deep discount of the subscription price to the market price of the Shares is necessary to induce the Underwriter to participate in the underwriting of the Underwritten Shares;
- (iv) relatively low liquidity in trading of the Shares during the Review Period;
- (v) the Group recorded unaudited consolidated net loss (after tax) for the nine months ended 30 September 2015;
- (vi) it is common practice for the listed companies in Hong Kong to set the subscription price of open offers at a discount to the market price in order to enhance the attractiveness of an open offer transaction;
- (vii) the discounts of the Subscription Price to the Closing Price on the Last Trading Day and to the theoretical ex-entitlement price fall within the range of the Comparables;
- (viii) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Open Offer and subscribe for the Offer Shares;

LETTER FROM HOORAY CAPITAL

- (ix) no positive feedback was received from three other underwriters approached by the Company for the underwriting of the Open Offer;
- (x) the Open Offer allows the Qualifying Shareholders to exercise their rights to subscribe for the Offer Shares with a fair chance;
- (xi) the Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer;
- (xii) the arrangement of excess application would increase the administrative costs of the Open Offer to the Company;
- (xiii) no application for excess Offer Shares is in line with common market practice; and
- (xiv) the use of proceeds are in the ordinary course of business of the Company.

In respect of the Set-off Arrangement, having considered that:

- (i) the redemption of the Convertible Bonds could avoid Adjusted Conversion Price(s) from taking place which is lower than the closing price of the Share as at the Latest Practicable Date and is not enjoyable by Independent Shareholders; and
- (ii) the Set-off Arrangement represents a discount to the cost of redemption of the Convertible Bonds.

We are of the opinion that the Open Offer is in the interests of the Company and the Shareholders as a whole. We are also of the view that the terms of the Open Offer, the Underwriting Agreement and the Set-off Arrangement are on normal commercial terms, the Open Offer, the Underwriting Agreement and the Set-off Arrangement are fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned. Therefore, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the proposed resolution to approve the Open Offer, the Underwriting Agreement, the Set-off Arrangement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Hooray Capital Limited
Simon Ng
Director

Mr. Simon Ng is a licensed person under the SFO to engage in, inter alia, Type 6 (advising on corporate finance) regulated activity and has over 17 years of experience in investment banking and corporate finance.

A. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the three financial years ended 31 December 2012, 31 December 2013 and 31 December 2014 can be found in the annual reports of the Company for each of the three financial years ended 31 December 2012 (pages 60 to 210), 31 December 2013 (pages 65 to 214) and 31 December 2014 (pages 63 to 214) respectively and the financial information of the Group for the six months ended 30 June 2015 can be found in the interim report of the Company for the six months ended 30 June 2015 (pages 6 to 26), all of which have been published on the HKExnews website at www.hkexnews.hk and the company's website at http://www.ilinkfin.net/china_cbm/.

B. INDEBTEDNESS STATEMENT**Borrowings**

As at the close of business on 29 February 2016, being the latest practicable date for the purpose of this indebtedness statement, the indebtedness of the Group was as follows:

(i) Other borrowings

Other borrowings of approximately RMB43.1 million were unsecured and unguaranteed.

(ii) Amount due to a non-controlling shareholder of a subsidiary of the Company of approximately RMB1.6 million was unsecured and unguaranteed.**(iii) Obligation under finance leases**

Obligation under finance leases arrangements of approximately RMB68.3 million were secured by (i) the Group's certain property, plant and equipment; (ii) prepaid lease payments for land under operating leases; (iii) shareholding in a subsidiary of the Company, Shanxi Qinshui Shuntai Energy Development Company Limited; and (iv) guaranteed by certain subsidiaries of the Company.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any debt securities authorised or created but unissued, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance leases, hire purchases commitments, guarantees or other material contingent liabilities at the close of business on 29 February 2016.

C. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that taking into account the financial resources presently available to the Group including the Group's internally generated funds, the currently available facilities, the estimated net proceeds from the Open Offer, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its normal business, that is for at least the next twelve months from the date of this circular.

D. MATERIAL ADVERSE CHANGE

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

E. FINANCIAL AND TRADING PROSPECT

The Group recorded a consolidated turnover of approximately RMB250.07 million for the nine months ended 30 September 2015, representing an increase of approximately 32.21% compared with the corresponding period last year.

The increase was mainly attributable to the increase in production compared with the corresponding period in 2014 as a result of the increase in number of coalbed methane ("CBM") wells in production. Therefore, the operating income generated from sales of liquefied coalbed gas has increased by approximately RMB90.26 million. Loss attributable to shareholders for the nine months ended 30 September 2015 was approximately RMB20.19 million compared with the loss attributable to shareholders of approximately RMB48.25 million in the corresponding period last year. The reasons for the decrease in loss are mainly attributable to: (i) the increase in production of liquefied coalbed gas during the nine months ended 30 September 2015, therefore the cost of liquefied coalbed gas was lowered, resulting in the record of gross profit for the nine months ended 30 September 2015; and (ii) the decrease in finance costs by approximately RMB3.74 million as a result of the decrease in the finance charges on bank and other borrowing compared with that of the corresponding period last year.

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

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

On 12 October 2015, the Group entered into an agreement to acquire 100% equity interest of 諾信(獻縣)機械工程材料有限公司 (Nuoxin (Xian County) Engineering Materials Company Limited*, "**Nuoxin**") from Mr. Wang at a consideration of RMB50.30 million (the "**Acquisition**"). The Acquisition was completed on 11 December 2015.

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.

Nuoxin 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. The acquisition of Nuoxin, which is currently a pipeline supplier of the Group, will enable to Group to enjoy a more stable supply of gas by securing the construction service of pipelines provided by the Nuoxin for its plant development and establish a complete business process at an expected lower cost. 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.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company (the “**Pro Forma Financial Information**”) which has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules to illustrate the effects of the Open Offer on the unaudited consolidated net tangible assets of the Group attributable to equity shareholders of the Company as if the Open Offer had taken place on 30 June 2015.

The Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of: (i) the financial position of the Group as at 30 June 2015 or any future date; or (ii) the unaudited consolidated net tangible assets per Share of the Group as at 30 June 2015 or any future date.

Unaudited consolidated net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2015 <i>HK\$'000</i> <i>(Note 1)</i>	Add: Estimated net proceeds from the Open Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company as at 30 June 2015 <i>HK\$'000</i>	Unaudited consolidated net tangible assets per Share attributable to equity shareholders of the Company as at 30 June 2015 <i>HK\$</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of the Company after completion of the Open Offer <i>HK\$</i> <i>(Note 4)</i>
692,057	133,376	825,433	HK\$5.245	HK\$1.564

Notes:

1. The unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2015 of approximately RMB576,714,000 (equivalent to approximately HK\$692,057,000) has been arrived at based on the equity attributable to equity shareholders of the Company of approximately RMB711,443,000 as adjusted to exclude the intangible assets of approximately RMB134,729,000 as shown on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 as extracted from the published interim report of the Company for the six months ended 30 June 2015.

2. The estimated net proceeds from the Open Offer has been arrived at as follows:

HK\$ '000

Estimated minimum gross proceeds from the Open Offer (before taking into account of the Set-off Arrangement) from the issue of a minimum of 395,845,359 Offer Shares at the Subscription Price of HK\$0.35 per Offer Share	138,546
Less: Estimated expenses in relation to the Open Offer	(5,170)
Estimated minimum net proceeds from the Open Offer (before the Set-off Arrangement) for the purpose of presentation of this Pro Forma Financial Information	133,376
Less: Effect of the Set-off Arrangement	(19,140)
Estimated minimum net proceeds from the Open Offer (after the Set-off Arrangement)	<u><u>114,236</u></u>

3. The number of shares used for the calculation of the unaudited consolidated net tangible assets per Share attributable to equity shareholders of the Company as at 30 June 2015 is 131,948,453 Shares (based on 1,319,484,534 Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Share Consolidation as if the Share Consolidation had taken place on the Latest Practicable Date), assuming (i) no further issue of new Shares or repurchase of Shares; (ii) none of the Convertible Bonds were converted on or before the Record Date; and (iii) no Share Options were exercised on or before the Record Date.
4. The number of shares used for the calculation of unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of the Company after completion of the Open Offer is calculated based on 527,793,812 Shares, comprising the 131,948,453 Shares in issue as at the Latest Practicable Date after adjusting for the effect of the Share Consolidation and a minimum of 395,845,359 Offer Shares to be issued pursuant to the Open Offer.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2015. In particular, this Pro Forma Financial Information does not take into account the Group's acquisition of the entire equity interests of 諾信 (獻縣) 機械工程材料有限公司 (transliterated as "Nuoxin (Xian County) Engineering Materials Company Limited"), the completion of which took place on 11 December 2015. Further details relating to the aforesaid discloseable and connected transaction were set out in the Company's circular dated 17 November 2015.

**B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN
INVESTMENT CIRCULAR**

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN
INVESTMENT CIRCULAR**

To the directors of China CBM Group Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China CBM Group Company Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company and related notes as set out in Section A of Appendix II to the Company’s circular dated 29 March 2016 (the “**Circular**”). The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described in Section A of Appendix II to the Circular.

The pro forma financial information has been compiled by the directors to illustrate the impact of the Open Offer (as defined in the Circular) on the unaudited consolidated net tangible assets of the Group attributable to equity shareholders of the Company as if the Open Offer had taken place at 30 June 2015. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s condensed consolidated interim financial statements for the six months ended 30 June 2015, on which no audit or review report has been published.

Directors' responsibility for the pro forma financial information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 (“**AG 7**”) “*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420 “*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*” issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Jonathan T. S. Lai
Practicing Certificate Number: P04165
Hong Kong, 29 March 2016

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. SHARE CAPITAL

(i) *Assume the Share Consolidation has not become effective*

<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 (assuming no Share Options would be exercised)</i>		
1,319,484,534	Existing Shares in issue as at the Latest Practicable Date	13,194,845.34
3,958,453,602	Offer Shares to be allotted and issued under the Open Offer	39,584,536.02
<u>5,277,938,136</u>	Existing Shares	<u>52,779,381.36</u>
<i>Issued and to be issued, fully paid or credited as fully paid (assuming all Share Options (save for the 324,750 Share Options held by Mr. Wang) exercised on or before the Record Date)</i>		
1,319,484,534	Existing Shares in issue as at the Latest Practicable Date	13,194,845.34
31,794,324	Existing Shares to be allotted and issued pursuant to the exercise of the subscription rights attaching to the Share Options (save for the 324,750 Share Options held by Mr. Wang)	317,943.24
4,053,836,574	Offer Shares to be allotted and issued under the Open Offer	40,538,365.74
<u>5,405,115,432</u>	Existing Shares	<u>54,051,154.32</u>

(ii) *Assume the Share Consolidation has become effective*

<i>Authorised</i>		<i>HK\$</i>
2,000,000,000 Shares		200,000,000
<i>Issued and to be issued, fully paid or credited as fully paid (assuming no Share Options would be exercised)</i>		
131,948,453	New Shares in issue as at the Latest Practicable Date (assuming the Share Consolidation having become effective)	13,194,845.3
395,845,359	New Shares to be allotted and issued under the Open Offer	39,584,535.9
527,793,812	New Shares	52,779,381.2

Issued and to be issued, fully paid or credited as fully paid (assuming the Share Consolidation having become effective and all Share Options (except for 324,750 Share Options held by Mr. Wang) would be exercised)

131,948,453	New Shares in issue as at the Latest Practicable Date (assuming the Share Consolidation having become effective)	13,194,845.3
3,179,431	New Shares to be allotted and issued pursuant to the exercised of the subscription rights attaching to the Share Options (except for the 324,750 Share Options held by Mr. Wang)	317,943.1
405,383,657	Offer Shares to be allotted and issued under the Open Offer	40,538,365.7
540,511,541	New Shares	54,051,154.1

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of allotment and issue of the Offer Shares. The Shares in issue are listed on the Stock Exchange.

Save for the 32,119,074 Shares Options entitling the holders thereof to subscribe for 32,119,074 Shares and the Convertible Bonds, the Company did not have any other options, warrants and other convertible securities or rights that are exchangeable or convertible into Shares or conferring any right to subscribe for the Shares as at the Latest Practicable Date.

No share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant, derivative or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Offer Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

3. 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) or 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 of Directors	Capacity	Nature of interests	Number of ordinary shares/ underlying shares	Approximate percentage or attributable percentage of shareholding (%)
Mr. Wang Zhong Sheng	Interest of controlled corporation	Corporate interest	18,118,500 (Note 1)	1.37%
	Beneficial owner	Personal	470,588,254 (Note 2)	35.66%
Mr. Fu Shou Gang	Beneficial owner	Personal	324,750	0.02%

Notes:

- These 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 Zhong Sheng who 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) (the "SFO").
- Out of the 470,588,254 Existing Shares, Mr. Wang Zhong Sheng is interested as (i) a grantee of options to subscribe for 324,750 Existing Shares under the share option scheme adopted by the Company on 18 May 2011; (ii) a beneficial owner of 376,121,483 Existing Shares; (iii) a holder of convertible bonds convertible to 94,142,021 conversion shares.
- Mr. Fu Shou Gang is interested as a grantee of the Share Options to subscribe for 324,750 Shares under the Share Option Scheme.

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 of shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Ms. Zhao Xin (<i>Note</i>)	488,706,754	Interest of spouse	37.03%

Note: Madam Zhao Xin is deemed to be interested in such shares by virtue of the interests in such shares held by her spouse, Mr. Wang Zhong Sheng 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.

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, 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.

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:

Name	Qualification
Hooray Capital	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited (“ HLB ”)	Certified Public Accountants

Each of Hooray Capital and HLB 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 Hooray Capital and HLB 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 CONTRACTS

The following contracts (not being contracts in the ordinary course of business) are contracts which have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

- (1) the arranger agreement dated 15 April 2014 and entered into between the Company and Kingsway Financial Services Group Limited as the arranger in relation to the proposed issue of the 10% unsecured and unlisted fixed rate notes (“**Notes**”) of an aggregate principal amount of up to HK\$51 million;
- (2) the subscription agreement dated 16 April 2014 and entered into between the Company and 7 institutional or private investors as subscribers (the “**Noteholders**”) in relation to the issue of the Notes of an aggregate principal amount of HK\$51 million;

- (3) the subscription agreements dated 15 May 2014 (as supplemented and amended by the supplemental deeds dated 22 May 2014) and entered into between the Company and each of the Noteholders as subscribers in relation to the subscription of 190,220,000 subscription Shares at the subscription price of HK\$0.311 per Share;
- (4) the finance lease agreement dated 28 January 2015 (the “**Finance Lease Agreement**”) and entered into between 山西沁水順泰能源發展有限公司 (Shanxi Qinshui Shuntai Energy Development Company Limited) (“**Qinshui Energy**”), a wholly owned subsidiary of the Group as lessee and 中集融資租賃有限公司 (CIMC Capital Ltd.) (“**CIMC**”) as lessor in relation to the sale and lease of certain liquefied natural gas equipments (LNG 液化裝置設備) for a consideration of RMB98,000,000;
- (5) the guarantees dated 28 January 2015 and executed by each of the Company, 洛陽順和能源有限公司 (Luoyang Shunhe Energy Company Limited), 山西萬志物流有限公司 (Shanxi Wanzhi Logistics Limited), 河北順泰能源有限公司 (Hebei Shuntai Energy Resource Company Limited), Yangcheng Huiyang and Shanxi Yangcheng entered into a Guarantee in favour of CIMC to secure due payment by Qinshui Energy to CIMC in accordance with the Finance Lease Agreement;
- (6) the conditional share pledge agreement dated 28 January 2015 and executed by the Company in favour of CIMC to pledge its shareholding in Qinshui Energy in favour of CIMC to secure due payment by Qinshui Energy in accordance with the Finance Lease Agreement to secure the payment obligation of Qinshui Energy under the Finance Lease Agreement;
- (7) the conditional agreement dated 12 October 2015 and entered into between Mr. Wang Zhong Sheng as vendor 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 in relation to the acquisition of the entire issued equity interests of 諾信 (獻縣) 機械工程材料有限公司 (Nuoxin (Xian County) Engineering Materials Company Limited*) at a total consideration of RMB50,300,000; and
- (8) the Underwriting Agreement.

* For identification purpose only

11. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
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
Authorised representatives	Mr. Wang Zhong Sheng Room 910B, 9/F East Wing Tsim Sha Tsui Centre 66 Mody Road Tsim Sha Tsui Kowloon, Hong Kong Mr. Lui Chi Keung Room 910B, 9/F East Wing Tsim Sha Tsui Centre 66 Mody Road Tsim Sha Tsui Kowloon, Hong Kong
Principal share registrar in Bermuda	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Branch share registrar in Hong Kong	Tricor Tengis Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Underwriter	RHB Securities Hong Kong Limited 12/F, World-Wide House 19 Des Voeux Road Central Hong Kong

Independent Financial Adviser	Hooray Capital Unit B, 19/F Guangdong Investment Tower 148 Connaught Road Central Hong Kong
Legal advisers to the Company	Michael Li & Co. 19/F., Prosperity Tower No. 39 Queen's Road Central Central, Hong Kong
Auditors	HLB Hodgson Impey Cheng Limited 31/F, Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong
Principal bankers	Hong Kong and Shanghai Banking Corporation Limited 1 Queen's Road Central, Hong Kong

12. EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$5.17 million, which are payable by the Company.

13. PARTICULARS OF DIRECTORS

(a) Name and address of the Directors

Name	Correspondence Address
<i>Executive Directors</i>	
Mr. Wang Zhong Sheng	Room 910B, 9/F. East Wing Tsim Sha Tsui Centre 66 Mody Road Tsim Sha Tsui Kowloon, Hong Kong

Mr. Fu Shou Gang
Room 910B, 9/F.
East Wing
Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui
Kowloon, Hong Kong

Independent non-executive Directors

Mr. Luo Wei Kun
Room 910B, 9/F.
East Wing
Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui
Kowloon, Hong Kong

Ms. Pang Yuk Fong
Room 910B, 9/F.
East Wing
Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui
Kowloon, Hong Kong

Mr. Wang Zhi He
Room 910B, 9/F.
East Wing
Tsim Sha Tsui Centre
66 Mody Road
Tsim Sha Tsui
Kowloon, Hong Kong

(b) Qualification of the Directors

Executive Directors

Mr. Wang Zhong Sheng, aged 52, has been appointed as chairman of the Board, an executive Director and the compliance officer of the Company since May 2006. From 9 January 2004 to 26 May 2006, Mr. Wang was an executive director of Tianjin Jinran Public Utilities Company Limited (“**Tianjin Jinran**”) (formerly known as Tianjin Tianlian Public Utilities Company Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 01265, former stock code: 08290), and was responsible for its business strategies. He graduated from the University of Tianjin with a bachelor degree in engineering in 1984. Mr. Wang is also a director of Tianjin Leason Investment Group Company Limited (天津市聯盛投資集團有限公司). Mr. Wang is a substantial shareholder of the company.

Mr. Fu Shou Gang, aged 49, has years of experiences in the natural gas sector. Prior to joining the Group, he worked in Tianjin Jinran, where was pointed as an executive Director. Mr. Fu is interested as a grantee of options to subscribe for 324,750 shares under the share options scheme adopted by the Company on 18 May 2011.

Independent non-executive Directors

Mr. Luo Wei Kun, aged 77, has been an independent non-executive director of the Company since August 2006. He graduated from the Tsinghua University with a bachelor's degree in civil engineering in 1964 and started postgraduate studies in the same year. He was awarded a postgraduate diploma in civil engineering in 1967. He acted as a technician in Wuhan Branch of the Chinese Medicine Industrial Limited during 1968 to 1969 and as a technician, deputy section chief, section chief, engineer and vice chief engineer in the State Ministry of Medicine - Hubei Medical Manufactory Branch during 1969 to 1985. He then worked as a senior engineer, section chief and assistant factory manager in Tianjin Second Coal Gas Factory during 1986 to 1992. From 1992 to 2000, he acted as a vice chief engineer in Tianjin Utility Department and at the same time, worked as a chief engineer in Tianjin City Gas Administrative Office. After his retirement in March 2000, Mr. Luo acted as a consultant of Tianjin City Gas Administrative Office and Tianjin City Gas Planning Office. Currently, he is an independent non-executive director of Tianjin Jinran.

Ms. Pang Yuk Fong, Yvonne, aged 49, is an experienced practicing certified public accountant in Hong Kong with over 25 years of professional experience in accounting and auditing. Ms. Pang is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators and an associate of the Institute of Chartered Accountants in England and Wales. Ms. Pang holds a Master of Professional Accounting Degree from the Hong Kong Polytechnic University.

Ms. Pang's professional career started in Deloitte (one of the Big-4 International Accountancy Firms) and subsequently held the accounting positions in the listed companies in Hong Kong. Ms. Pang has been running her own practice of Certified Public Accountant (practicing) in Hong Kong since 1990's and has currently been the Managing Director of Focus Asia CPA Limited. She has also been the Managing Director of Focus Secretarial Services Limited which is engaged in providing multilateral company secretarial services and the Managing Director of Focus Asia Market Consultants Limited and Focus Corporate Consultancy Limited which are engaged in providing business advisory services to her clients in various aspects.

Ms. Pang has been appointed as an independent non-executive Director since 2006.

Mr. Wang Zhi He, aged 68, has been an independent non-executive director of the Company since August 2006. Mr. Wang is a senior accountant. Mr. Wang graduated from Anhui University of Finance and Economics in February 1972, and was assigned to finance department of Anhui Huaibei Mining Bureau and worked as a commissioner, deputy section chief, section chief, deputy director and director. Mr. Wang was transferred to the Ministry of Coal Industry in May 1995, and worked as a director of Asset Capital Management Division and State-owned Assets Management department. In October 1997, Mr. Wang was re-designated as a chief accountant of China Coal Construction Group Corporation, and worked as a deputy general manager and chief accountant in May 1999. Mr. Wang was transferred to Zhonglian Gas Company Limited and worked as a chief accountant in March 2004. Mr. Wang has years of relevant experience.

Compliance Offer

Mr. Wang is also the compliance officer of the Company. Biographical details are set out above.

Save as disclosed above, Mr. Wang does not hold any positions with the Company and its subsidiaries, nor has he held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Save as disclosed above, Mr. Wang does not have any other relationship with any other Directors, senior management of the Company or substantial or controlling Shareholders.

Audit Committee

The audit committee of the Company comprises of Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He, who are independent non-executive Directors. Biographical details of them are set out above. The audit committee of the Company has been established in accordance with the terms of reference, pursuant to which the main objective of the audit committee is to be responsible for the relationship with the Company's auditors, review of the Company's financial information and monitoring of the Company's financial reporting system and internal control procedures.

Save as disclosed above, Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He do not hold any positions with the Company and its subsidiaries, nor has each of them held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He do not have any relationship with any other Directors, senior management of the Company or substantial or controlling Shareholders.

14. 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 Hooray Capital, the text of which is set out in this circular;
- (e) the consent letter of each of Hooray Capital and HLB referred to in the paragraph headed “Experts and Consents” in this Appendix;
- (f) the material contracts referred to in the paragraph headed ‘Material Contracts’ in this appendix;
- (g) the letter issued by the reporting accountants regarding the unaudited pro forma financial information as set out in appendix II of this circular; and
- (h) this circular.

NOTICE OF SGM

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, No. 2, Tsui Ming Road, Yixian Industrial Zone, Wuqing Development Zone, Tianjin, the People’s Republic of China on Monday, 18 April 2016 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon, among others, the granting by the Stock Exchange of the listing of, and permission to deal in, the issued ordinary shares of the Company consolidated in the manner as set out in paragraph (a) of this resolution below (the “**Share Consolidation**”):
 - (a) with effect from the business day immediately following the date on which this resolution is passed, being a day on which shares are traded on the Stock Exchange, every ten issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Existing Shares**”) be consolidated into one share of HK\$0.10 (each a “**Consolidated Share**”), such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the Bye-laws of the Company;
 - (b) the Directors of the Company be and are generally authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the foregoing arrangements for the Share Consolidation.”
2. “**THAT**
 - (a) subject to the passing of the ordinary resolution no. 3 as set out in this notice of the Meeting and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Open Offer (as defined below) and the transactions contemplated thereunder be and are hereby approved;

For the purpose of this resolution, “**Open Offer**” means the proposed issue by way of open offer of shares in the share capital of the Company (the “**Offer Share(s)**”) at a subscription price of HK\$0.035 per Offer Share (on the assumption that the Share Consolidation would not become effective) or HK\$0.35 per Offer Share (on the assumption that the Share Consolidation having become effective) (the “**Subscription Price**”) to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the date by reference to which entitlement under the Open Offer will be determined (other than those shareholders (the “**Prohibited Shareholders**”)

NOTICE OF SGM

with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of three (3) Offer Shares for every one (1) Existing Share or Consolidated Share (subject to whether the Share Consolidation having become effective) then held and otherwise pursuant to and subject to the fulfillment of the conditions set out in the underwriting agreement dated 7 January 2016 (as supplemented by the supplemental agreement dated 15 March 2016) (the “**Underwriting Agreement**”, a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) entered into between the Company and RHB Securities Hong Kong Limited as underwriter (the “**Underwriter**”);

- (b) any director of the Company (the “**Director(s)**”) be and is hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or Prohibited Shareholders, if any, as they deem necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company (the “**Bye-laws**”) or the laws of, or the rules and regulations of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong;
- (c) the entering into the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified;
- (d) the absence of arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and
- (e) any Director be and is hereby authorised to sign and execute such documents (whether under common seal of the Company or not) 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 under the Underwriting Agreement, as he/she may in his/her absolute discretion consider necessary, desirable or expedient to give effect to the Underwriting Agreement, the Open Offer and the transactions contemplated thereunder, including but not limited to the allotment and issue of Offer Shares and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

NOTICE OF SGM

3. “**THAT** subject to the passing of the ordinary resolution no. 2 as set out in this notice of the Meeting and conditional upon fulfillment of the conditions of the Underwriting Agreement,
- (a) The set-off arrangement (the “**Set-off Arrangement**”) involving set off part of the total Subscription Price of HK\$19,140,000 in respect of the 546,857,142 Offer Shares (assuming the Share Consolidation would not become effective) or 54,685,714 Offer Shares (assuming that the Share Consolidation having become effective) among the Offer Shares to be subscribed by Mr. Wang Zhong Zheng (“**Mr. Wang**”) and his associates under the Open Offer against the entire outstanding principal amount of the convertible bonds of HK\$21,238,440 held by Mr. Wang in accordance with the terms of the Open Offer and the transactions contemplated thereunder be and are hereby approved and confirmed;
 - (b) any Director be and is hereby authorised to sign and execute such documents (whether under common seal of the Company or not) 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 under the Set-off Arrangement, as he/she may in his/her absolute discretion consider necessary, desirable or expedient to give effect to the Set-off Arrangement and the transactions contemplated thereunder, including but not limited to the redemption of the convertible bonds in entirety and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests 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, 29 March 2016

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

NOTICE OF SGM

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.