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## **China CBM Group Company Limited** **中國煤層氣集團有限公司**

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock code: 08270)**

### **INTERIM RESULTS ANNOUNCEMENT**

**For the six months ended 30 June 2017**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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

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## FINANCIAL HIGHLIGHTS

- Turnover of the Company together with its subsidiaries (collectively the “Group”) for the quarter ended 30 June 2017 (the “Quarterly Period”) and the six months ended 30 June 2017 (the “Interim Period”) were approximately RMB47,864,000 and RMB82,371,000 respectively, representing a decrease of approximately 26.33% and 32.81% respectively compared with corresponding periods in the previous financial year.
- The Group recorded a loss attributable to owners of the Company of approximately RMB21,582,000 for the Interim Period.
- Loss per share of the Group was approximately RMB1.64 cents for the Interim Period.
- The board of Directors (the “Board”) does not recommend the payment of any dividend for the Interim Period.

## CONDENSED CONSOLIDATED INCOME STATEMENT

The unaudited consolidated results of the Group for the Quarterly Period and the Interim Period, together with the unaudited comparative figures for the corresponding periods in 2016, respectively were as follows:

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

|   | Note | Quarterly ended 30 June        |                                | Half year ended 30 June        |                                |
|---|------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|   |      | 2017<br>RMB'000<br>(unaudited) | 2016<br>RMB'000<br>(unaudited) | 2017<br>RMB'000<br>(unaudited) | 2016<br>RMB'000<br>(unaudited) |
| Turnover                                    | 3    | 47,864                         | 64,971                         | 82,371                         | 122,592                        |
| Cost of sales                               |      | <u>(44,743)</u>                | <u>(71,114)</u>                | <u>(79,408)</u>                | <u>(124,829)</u>               |
| Gross profit/(loss)                         |      | 3,121                          | (6,143)                        | 2,963                          | (2,237)                        |
| Other revenue and net income                | 3    | 4,264                          | 136                            | 4,577                          | 234                            |
| Distribution costs                          |      | (587)                          | (275)                          | (1,332)                        | (1,067)                        |
| Administrative and other operating expenses |      | (9,534)                        | (13,708)                       | (21,742)                       | (26,335)                       |
| Finance costs                               |      | <u>(1,818)</u>                 | <u>(2,242)</u>                 | <u>(3,887)</u>                 | <u>(4,491)</u>                 |
| Loss before income tax                      | 4    | (4,554)                        | (22,232)                       | (19,421)                       | (33,896)                       |
| Income tax (charge)/ credit                 | 5    | <u>–</u>                       | <u>(84)</u>                    | <u>182</u>                     | <u>95</u>                      |
| Loss for the period                         |      | <u><b>(4,554)</b></u>          | <u><b>(22,316)</b></u>         | <u><b>(19,239)</b></u>         | <u><b>(33,801)</b></u>         |
| <b>Attributable to:</b>                     |      |                                |                                |                                |                                |
| Owners of the Company                       |      | (7,482)                        | (21,857)                       | (21,582)                       | (32,570)                       |
| Non-controlling interests                   |      | <u>2,928</u>                   | <u>(459)</u>                   | <u>2,343</u>                   | <u>(1,231)</u>                 |
| <b>Loss for the period</b>                  |      | <u><b>(4,554)</b></u>          | <u><b>(22,316)</b></u>         | <u><b>(19,239)</b></u>         | <u><b>(33,801)</b></u>         |
| Dividends attributable to the period        | 6    | <u>–</u>                       | <u>–</u>                       | <u>–</u>                       | <u>–</u>                       |
|   |      | <i>RMB (cents)</i>             | <i>RMB (cents)</i>             | <i>RMB (cents)</i>             | <i>RMB (cents)</i>             |
| <b>Loss per share</b>                       |      |                                |                                |                                |                                |
| – basic                                     | 7    | <u><b>(0.57)</b></u>           | <u>(1.66)</u>                  | <u><b>(1.64)</b></u>           | <u>(2.47)</u>                  |
| – diluted                                   |      | <u><b>(0.57)</b></u>           | <u>(1.66)</u>                  | <u><b>(1.64)</b></u>           | <u>(2.47)</u>                  |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|  | Quarterly ended 30 June |                 | Half year ended 30 June |                 |
|--|-------------------------|-----------------|-------------------------|-----------------|
|  | 2017                    | 2016            | 2017                    | 2016            |
|  | <i>RMB'000</i>          | <i>RMB'000</i>  | <i>RMB'000</i>          | <i>RMB'000</i>  |
|  | (unaudited)             | (unaudited)     | (unaudited)             | (unaudited)     |
| <b>Loss for the period</b>   | <b>(4,554)</b>          | (22,316)        | <b>(19,239)</b>         | (22,183)        |
| <b>Other comprehensive<br/>(expense)/income<br/>for the period</b>                       |                         |                 |                         |                 |
| Items that may be reclassified<br>subsequently to profit or loss:                        |                         |                 |                         |                 |
| Exchange differences on<br>translation of financial<br>statements of foreign<br>entities | <u>(677)</u>            | <u>416</u>      | <u>(67)</u>             | <u>(125)</u>    |
| <b>Total comprehensive<br/>expense for the period</b>                                    | <b>(5,231)</b>          | (21,900)        | <b>(19,306)</b>         | (22,308)        |
| <b>Total comprehensive<br/>expense attributable to:</b>                                  |                         |                 |                         |                 |
| Equity shareholders<br>of the Company  | <b>(8,159)</b>          | (21,441)        | <b>(21,649)</b>         | (17,279)        |
| Non-controlling interests  | <u><b>2,928</b></u>     | <u>(459)</u>    | <u><b>2,343</b></u>     | <u>(5,029)</u>  |
|  | <u><b>(5,231)</b></u>   | <u>(21,900)</u> | <u><b>(19,306)</b></u>  | <u>(22,308)</u> |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   |             | 30 June<br>2017<br><i>RMB'000</i><br>(unaudited) | 31 December<br>2016<br><i>RMB'000</i><br>(audited) |
|---|-------------|--|--|
|   | <i>Note</i> |  |  |
| <b>Non-current assets</b>                                 |             |  |  |
| Property, plant and equipment                             |             | 694,782  | 728,717  |
| Prepaid lease payments for<br>land under operating leases |             | 34,211   | 35,074   |
| Deposits and prepayments                                  |             | 25,896   | 26,347   |
|   |             | 754,889  | 790,138  |
| <b>Current assets</b>                                     |             |  |  |
| Prepaid lease payments for<br>land under operating leases |             | 863  | 863  |
| Financial asset at fair value<br>through profit or loss   |             | –  | 200  |
| Inventories   |             | 9,110  | 8,115  |
| Trade and other receivables                               | 9           | 99,945   | 100,285  |
| Tax recoverable   |             | 2,000  | 2,000  |
| Cash and cash equivalents                                 |             | 11,536   | 20,534   |
|   |             | 123,454  | 131,997  |
| <b>Current liabilities</b>                                |             |  |  |
| Trade and other payables                                  | 10          | 359,430  | 382,927  |
| Bank and other borrowings due within<br>one year          | 11          | 46,490   | 40,080   |
| Obligation under finance leases                           |             | 23,476   | 19,933   |
| Provision   |             | 12,308   | 8,658  |
| Tax payable   |             | 3,469  | 6,574  |
|   |             | 445,173  | 458,172  |

|  |             | <b>30 June<br/>2017</b>      | 31 December<br>2016   |
|--|-------------|------------------------------|-----------------------|
|  |             | <b>RMB'000</b>               | <b>RMB'000</b>        |
|  | <i>Note</i> | <b>(unaudited)</b>           | (audited)             |
| <b>Net current liabilities</b>                               |             | <u><b>(321,719)</b></u>      | <u>(326,175)</u>      |
| <b>Total assets less current liabilities</b>                 |             | <u><b>433,170</b></u>        | <u>463,963</u>        |
| <b>Non-current liabilities</b>                               |             |                              |                       |
| Obligation under finance leases                              |             | <b>14,785</b>                | 25,626                |
| Convertible bonds  |             | <b>8,056</b>                 | 8,316                 |
| Deferred tax liabilities                                     |             | <u><b>11,499</b></u>         | <u>11,885</u>         |
|  |             | <u><b>34,340</b></u>         | <u>45,827</u>         |
| <b>Net assets</b>  |             | <u><u><b>398,830</b></u></u> | <u><u>418,136</u></u> |
| <b>Capital and Reserves</b>                                  |             |                              |                       |
| Share capital  | <i>12</i>   | <b>10,910</b>                | 10,910                |
| Reserves   |             | <u><b>399,688</b></u>        | <u>421,337</u>        |
| Equity attributable to equity<br>shareholders of the Company |             | <b>410,598</b>               | 432,247               |
| Non-controlling interests                                    |             | <u><b>(11,768)</b></u>       | <u>(14,111)</u>       |
| <b>Total equity</b>  |             | <u><u><b>398,830</b></u></u> | <u><u>418,136</u></u> |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Six months ended     |                      |
|---|----------------------|----------------------|
|   | 30 June              |                      |
|   | 2017                 | 2016                 |
|   | <i>RMB'000</i>       | <i>RMB'000</i>       |
|   | (unaudited)          | (unaudited)          |
| CASH INFLOW FROM OPERATING ACTIVITIES     | 7,598                | 27,628               |
| CASH OUTFLOW FROM INVESTING ACTIVITIES    | (11,416)             | (8,434)              |
| CASH OUTFLOW FROM FINANCING ACTIVITIES    | <u>(5,180)</u>       | <u>(22,202)</u>      |
| NET DECREASE IN CASH AND<br>BANK BALANCES | (8,998)              | (3,008)              |
| CASH AND BANK BALANCES AT 1 JANUARY       | <u>20,534</u>        | <u>45,437</u>        |
| CASH AND BANK BALANCES AT 30 JUNE         | <u><u>11,536</u></u> | <u><u>42,429</u></u> |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (unaudited)  | Attributable to equity shareholders of the Company |                                 |                                   |                                       |                                       |  |   |                                      |                         |                                | Non-controlling interests | Total equity |
|--|--|---------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|--|---|--------------------------------------|-------------------------|--------------------------------|---------------------------|--------------|
|  | Share capital<br><i>RMB'000</i>                    | Share premium<br><i>RMB'000</i> | General reserve<br><i>RMB'000</i> | Translation reserve<br><i>RMB'000</i> | Contributed surplus<br><i>RMB'000</i> | Share option reserve<br><i>RMB'000</i> | Convertible bonds reserve<br><i>RMB'000</i> | Accumulated losses<br><i>RMB'000</i> | Total<br><i>RMB'000</i> | Total equity<br><i>RMB'000</i> |                           |              |
| Balance at 1 January 2017                            | 10,910   | 131,082                         | 8,273                             | (5,412)                               | 584,838                               | 30,849                                 | 8,652                                       | (336,945)                            | 432,247                 | (14,111)                       | 418,136                   |              |
| Loss for the period                                  | -  | -                               | -                                 | -                                     | -                                     | -                                      | -   | (21,582)                             | (21,582)                | 2,343                          | (19,239)                  |              |
| Other comprehensive expenses for the period          | -  | -                               | -                                 | (67)                                  | -                                     | -                                      | -   | -                                    | (67)                    | -                              | (67)                      |              |
| Total comprehensive (expenses)/income for the period | -  | -                               | -                                 | (67)                                  | -                                     | -                                      | -   | (21,582)                             | (21,649)                | 2,343                          | (19,306)                  |              |
| Balance at 30 June 2017                              | <u>10,910</u>                                      | <u>131,082</u>                  | <u>8,273</u>                      | <u>(5,479)</u>                        | <u>584,838</u>                        | <u>30,849</u>                          | <u>8,652</u>                                | <u>(358,527)</u>                     | <u>410,598</u>          | <u>(11,768)</u>                | <u>398,830</u>            |              |

| (unaudited)                                | Attributable to equity shareholders of the Company |                                 |                                   |                                       |                                       |  |   |                                      |                         |                                | Non-controlling interests | Total equity |
|--|--|---------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|--|---|--------------------------------------|-------------------------|--------------------------------|---------------------------|--------------|
|  | Share capital<br><i>RMB'000</i>                    | Share premium<br><i>RMB'000</i> | General reserve<br><i>RMB'000</i> | Translation reserve<br><i>RMB'000</i> | Contributed surplus<br><i>RMB'000</i> | Share option reserve<br><i>RMB'000</i> | Convertible bonds reserve<br><i>RMB'000</i> | Accumulated losses<br><i>RMB'000</i> | Total<br><i>RMB'000</i> | Total equity<br><i>RMB'000</i> |                           |              |
| Balance at 1 January 2016                  | 10,910   | 131,082                         | 8,273                             | (5,528)                               | 584,838                               | 30,849                                 | 8,652                                       | (235,943)                            | 533,133                 | (12,729)                       | 520,404                   |              |
| Loss for the period                        | -  | -                               | -                                 | -                                     | -                                     | -                                      | -   | (32,570)                             | (32,570)                | (1,231)                        | (33,801)                  |              |
| Other comprehensive income for the period  | -  | -                               | -                                 | 351                                   | -                                     | -                                      | -   | -                                    | 351                     | -                              | 351                       |              |
| Total comprehensive expense for the period | -  | -                               | -                                 | 351                                   | -                                     | -                                      | -   | (32,570)                             | (32,219)                | (1,231)                        | (33,450)                  |              |
| Balance at 30 June 2016                    | <u>10,910</u>                                      | <u>131,082</u>                  | <u>8,273</u>                      | <u>(5,177)</u>                        | <u>584,838</u>                        | <u>30,849</u>                          | <u>8,652</u>                                | <u>(268,513)</u>                     | <u>500,914</u>          | <u>(13,960)</u>                | <u>486,954</u>            |              |



*NOTES:*

**1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**

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

The unaudited consolidated results for the six months ended 30 June 2017 have not been audited by the Company’s auditors, but have been reviewed by the Company’s audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results for the six months ended 30 June 2017 are consistent with those used in the Company’s annual financial statements for the year ended 31 December 2016.

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

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

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

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

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretation which are not yet effective for the period ended 30 June 2017 and which have not been adopted in these financial statements.

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

### 3. TURNOVER AND SEGMENT INFORMATION

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

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

- The amount of each significant category of revenue recognised in turnover during the Quarterly Period and the Interim Period, and the corresponding periods in 2016 is as follows:

|   | Quarterly ended 30 June |                | Half year ended 30 June |                |
|---|-------------------------|----------------|-------------------------|----------------|
|   | 2017                    | 2016           | 2017                    | 2016           |
|   | <i>RMB'000</i>          | <i>RMB'000</i> | <i>RMB'000</i>          | <i>RMB'000</i> |
|   | (unaudited)             | (unaudited)    | (unaudited)             | (unaudited)    |
| Turnover  |                         |                |                         |                |
| Sales of liquefied coalbed gas (including provision of liquefied coalbed gas logistic services) | <b>8,845</b>            | 64,410         | <b>16,875</b>           | 120,501        |
| Sales of piped natural gas and provision of gas supply connection services                      | <b>39,019</b>           | 561            | <b>65,496</b>           | 2,091          |
|   | <b>47,864</b>           | 64,971         | <b>82,371</b>           | 122,592        |
| Other revenue and net income  |                         |                |                         |                |
| Interest income from bank deposits  | <b>6</b>                | 20             | <b>17</b>               | 45             |
| Others  | <b>4,258</b>            | 116            | <b>4,560</b>            | 189            |
|   | <b>4,264</b>            | 136            | <b>4,577</b>            | 234            |

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

#### 4. LOSS BEFORE INCOME TAX

Loss before income tax was arrived at after charging:

|   | Quarterly ended 30 June |                | Half year ended 30 June |                |
|---|-------------------------|----------------|-------------------------|----------------|
|   | 2017                    | 2016           | 2017                    | 2016           |
|   | <i>RMB'000</i>          | <i>RMB'000</i> | <i>RMB'000</i>          | <i>RMB'000</i> |
|   | (unaudited)             | (unaudited)    | (unaudited)             | (unaudited)    |
| Staff costs (including<br>Directors' remuneration)<br>– Salaries, wages, retirement<br>benefit schemes contributions<br>and other benefit | <u>6,612</u>            | <u>6,772</u>   | <u>12,619</u>           | <u>13,425</u>  |
| Depreciation of property,<br>plant and equipment  | <u>17,854</u>           | <u>19,954</u>  | <u>37,155</u>           | <u>38,569</u>  |

#### 5. INCOME TAX

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period ended 30 June 2017 and 2016.

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

##### (b) Overseas income tax

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

There was no significant unprovided deferred taxation for the Quarterly Period and Interim Period.

#### 6. DIVIDENDS

The Board does not recommend payment of any interim dividend for the Interim Period (six-month ended 30 June 2016: Nil).

## 7. LOSS PER SHARE

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

|   | Quarterly ended 30 June |                  | Half year ended 30 June |                  |
|---|-------------------------|------------------|-------------------------|------------------|
|   | 2017                    | 2016             | 2017                    | 2016             |
|   | <i>RMB'000</i>          | <i>RMB'000</i>   | <i>RMB'000</i>          | <i>RMB'000</i>   |
|   | (unaudited)             | (unaudited)      | (unaudited)             | (unaudited)      |
| Loss attributable to owners of the Company  | <u>(7,482)</u>          | <u>(21,857)</u>  | <u>(21,582)</u>         | <u>(32,570)</u>  |
|   | Shares                  | Shares           | Shares                  | Shares           |
|   | ('000)                  | ('000)           | ('000)                  | ('000)           |
| Weighted average number of ordinary shares for the purposes of calculating basic loss per share | <u>1,319,484</u>        | <u>1,319,484</u> | <u>1,319,484</u>        | <u>1,319,484</u> |

No dilutive loss per share was presented because there were no dilutive potential ordinary share in existence during the quarters and six months ended 30 June 2017 and 30 June 2016 respectively.

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

During the Interim Period, the Group have acquired approximately RMB2,562,000 (six months ended 30 June 2016: approximately RMB27,520,000) property, plant and equipment. There was no material disposal in the Interim Period (six months ended 30 June 2016: Nil).

## 9. TRADE AND OTHER RECEIVABLES

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

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

|                                    | <b>30 June<br/>2017<br/>RMB'000<br/>(unaudited)</b> | 31 December<br>2016<br>RMB'000<br>(audited) |
|------------------------------------|---|---|
| Trade and bills receivables        | <b>6,316</b>  | 4,346                                       |
| Amounts due from related companies | <b>5,235</b>  | 3,730                                       |
| Advances to suppliers              | <b>1,966</b>  | 1,840                                       |
| Prepayments and other receivables  | <b>80,969</b>                                       | 84,673                                      |
| Other tax recoverable              | <b>5,459</b>  | 5,696                                       |
|                                    | <b>99,945</b>                                       | 100,285                                     |

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

|  | <b>30 June<br/>2017<br/>RMB'000<br/>(unaudited)</b> | 31 December<br>2016<br>RMB'000<br>(audited) |
|--|---|---|
| Within 1 month                             | <b>5,254</b>  | 3,078                                       |
| More than 1 month but 1 less than 3 months | <b>211</b>  | 428   |
| More than 3 months but less than 6 months  | <b>11</b>   | –   |
| More than 6 months but less than 12 months | <b>–</b>  | –   |
| More than 12 months                        | <b>840</b>  | 840   |
|  | <b>6,316</b>  | 4,346                                       |

## 10. TRADE AND OTHER PAYABLES

|  | <b>30 June<br/>2017<br/>RMB'000<br/>(unaudited)</b> | 31 December<br>2016<br>RMB'000<br>(audited) |
|--|---|---|
| Trade payables   | <b>153,145</b>                                      | 160,236                                     |
| Amount due to a non-controlling shareholder<br>of a subsidiary ( <i>note (a)</i> ) | <b>5,928</b>  | 6,451                                       |
| Accrued expenses and other payables  | <b>183,881</b>                                      | 204,395                                     |
| Deposits received from customers   | <b>13,448</b>                                       | 10,019                                      |
| Other taxes payables   | <b>3,028</b>  | 1,826                                       |
|  | <b>359,430</b>                                      | 382,927                                     |

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

|  | <b>2017<br/>RMB'000<br/>(unaudited)</b> | 2016<br>RMB'000<br>(audited) |
|--|---|------------------------------|
| Within 1 month                             | <b>6,758</b>                            | 3,294                        |
| More than 1 month but less than 3 months   | <b>5,170</b>                            | 447                          |
| More than 3 months but less than 6 months  | –                                       | –                            |
| More than 6 months but less than 12 months | <b>44,659</b>                           | 155,688                      |
| More than 12 months                        | <b>96,558</b>                           | 807                          |
|  | <b>153,145</b>                          | 160,236                      |

*Note:*

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

## 11. BANK AND OTHER BORROWINGS

As at 30 June 2017, the bank and other loans were repayable as follows:

|  | <b>30 June<br/>2017<br/>RMB'000<br/>(unaudited)</b> | 31 December<br>2016<br>RMB'000<br>(audited) |
|--|---|---|
| Bank loan and unsecured other loans repayable: |   |   |
| Within 1 year or on demand                     | <b>46,490</b>                                       | 40,080                                      |

Notes:

- (a) Unsecured other loans of RMB36,590,000 (2016: RMB42,080,000) represent loans due to non-controlling shareholders of PRC subsidiaries of the Group. The loans bear interest at fixed rates ranging from 7.12% to 11.50% (2016: 7.12% to 11.50%) per annum.
- (b) As at 30 June 2017, bank borrowing of RMB9,900,000 (2016: Nil) was personal guaranteed by the Group's key management personnel and bear an interest at fixed rate of 6.96% (2016: Nil) per annum.

## 12. SHARE CAPITAL

|  | <b>30 June 2017<br/>(unaudited)</b>  |  | 31 December 2016<br>(audited) |                                      |
|--|--------------------------------------|--|-------------------------------|--------------------------------------|
|  | <b>Number of<br/>shares<br/>'000</b> | <b>Total<br/>nominal<br/>value<br/>RMB'000</b> | Number of<br>shares<br>'000   | Total<br>nominal<br>value<br>RMB'000 |
| Authorised                                       | <b>20,000,000</b>                    | <b>174,064</b>                                 | 20,000,000                    | 174,064                              |
| Issued and fully paid                            |                                      |  |                               |                                      |
| At 1 January ordinary<br>shares of HK\$0.01 each | <b>1,319,484</b>                     | <b>10,910</b>                                  | 1,319,484                     | 10,910                               |
| At 30 June/ 31 December                          | <b>1,319,484</b>                     | <b>10,910</b>                                  | 1,319,484                     | 10,910                               |

### Share option scheme

Pursuant to an ordinary resolution passed on 18 May 2011, the Company adopted a share option scheme (the "Scheme") for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are available to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The Scheme will remain in force for a period of 10 years from adoption of the Scheme and will expire on 17 May 2021.

On 30 May 2011, the Board approved to grant options in respect of 258,300,000 ordinary shares to the Company's directors, employees and consultants under the Scheme.

As a result of the Open Offer, adjustment has been made, among others, to the number of the share options to subscribe for shares granted and the exercise price of the outstanding share options pursuant to the New Share Option Scheme with effect from 6 February 2014.

After the aforesaid adjustment upon the completion of the Open Offer, the total number of the outstanding share options has been adjusted from 247,260,000 to 321,190,740 on 6 February 2014 and the exercise price of the outstanding share options had been adjusted from HK\$0.495 to HK\$0.381.

As a result of the capital reorganisation, adjustment has been made, among others, to the number of the share options to subscribe for shares granted and the exercise price of the outstanding share options pursuant to the New Share Option Scheme with effect from 12 May 2014.

After the aforesaid adjustment upon the completion of the capital reorganisation, the total number of the outstanding share options has been adjusted from 321,190,740 to 32,119,074 on 12 May 2014 and the exercise price of the outstanding options has been adjusted from HK\$0.381 to HK\$3.81.

The options outstanding at 30 June 2017 had an exercise price of HK\$3.81 and a weighted average remaining contractual life of 3.9 years. The exercise periods for the above options granted under the Scheme shall end not later than 10 years from 30 May 2011.

### 13. COMMITMENTS

- (a) At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases in respect of office premises are payable as follows:

|                                 | <b>30 June<br/>2017<br/>RMB'000<br/>(unaudited)</b> | 31 December<br>2016<br>RMB'000<br>(audited) |
|---------------------------------|---|---|
| Within 1 year                   | <b>292</b>  | 109   |
| After 1 year but within 5 years | <b>497</b>  | –   |
|                                 | <b>779</b>  | 109   |

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

- (b) At 30 June 2017, the Group had the following capital commitments:

|  | <b>30 June<br/>2017<br/>RMB'000<br/>(unaudited)</b> | 31 December<br>2016<br>RMB'000<br>(audited) |
|--|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment and in respect of construction in progress: |   |   |
| – contracted but not provided for in the financial statements  | <b>123,566</b>                                      | 135,000                                     |



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group recorded a consolidated turnover of approximately RMB82,371,000 for the Interim Period, representing a decrease of approximately 32.81% compared with the corresponding period of last year. The Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai since February 2017, and it leads to the decrease in turnover of the Group during the Interim Period.

Loss attributable to equity shareholders of the Company for the Interim Period was approximately RMB21,582,000, compared with the loss attributable to equity shareholders of approximately RMB32,570,000 for the previous period. The reasons for the loss are as follows:

- (i) The Group has suspended the production of liquefied natural gas by Shanxi Qinshui Shuntai since February 2017, and it leads to the decrease in turnover of the Group during the Interim Period.
- (ii) The other revenue and net income increased by RMB4,343,000 to RMB4,577,000, it mainly due to the approximately RMB4,000,000 of Valued Add Tax refund.
- (iii) Income tax credit for approximately RMB182,000 mainly due to the recognition of deferred tax liabilities in relation to the withholding tax provision for the Interim Period.

## BUSINESS REVIEW AND DEVELOPMENT PROSPECTS

### Resources and reserves

Yangcheng Huiyang New Energy Development Company Limited (hereinafter referred to as “Huiyang New Energy”) has interest in certain coalbed methane (CBM) properties located at Shanxi Province, the PRC. The Yangcheng area is approximately 96 km<sup>2</sup> in the Shanxi Province, the PRC. Development within the Yangcheng gas block is focused on the #3 and #15 coal seams. These CBM properties are located at various coal mine areas owned by Shanxi Yangcheng Yangtai Group Industrial Company Limited. Huiyang New Energy is a joint venture company and 60% of its equity interests is held by one of the wholly-owned subsidiaries of the Group.

The movements in the reserves of certain CBM properties as of 30 June 2017 are set out below:

|   | <b>Reserve<br/>evaluation<br/>of the CBM<br/>properties<br/>as at<br/>30 June 2017<br/>BCF</b> | Reserve<br>evaluation<br>of the CBM<br>properties<br>as at<br>31 March 2012<br>BCF |
|---|--|--|
| Total original gas in place on all blocks           | <b>2,724</b>   | 2,724  |
| Net 1P (Proved) reserves                            | <b>1,419</b>   | 35   |
| Net 2P (Proved + Probable) reserves (2P)            | <b>1,869</b>   | 277  |
| Net 3P (Proved + Probable + Possible) reserves (3P) | <b>2,282</b>   | 2,050  |

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

Due to continued development of the gas field blocks by the Company, the number and scope of the gas production wells are relatively increased as compared with that of 2012, enabling the Company to collect more data about the CBM properties to evaluate the CBM properties more accurately. Accordingly, the Company engaged an independent professional valuer in the PRC in July 2014 to evaluate certain CBM properties of “Huiyang New Energy” in terms of net 3P (Proved + Probable + Possible) reserves, net 2P (Proved + Probable) reserves and net 1P (Proved) reserves based on substantially the same definitions and guidelines as that of NSAI in 2012. According to the results of the evaluation, the total original gas in place on all blocks was generally unchanged as compared with that of NSAI in 2012. Based on the current costs for developing wells, the technical department of the Group estimates the capital expenditure for each well to be approximately RMB1.4 million, mainly comprising of road maintenance fees of approximately RMB0.09 million, drilling expenses of approximately RMB0.86 million, well testing fees of approximately RMB0.04 million and costs of equipment and materials of approximately RMB0.41 million.

Gas volumes are expressed in billion of cubic feet (BCF) at standard temperature and pressure bases. The reserves shown in the above table are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be commercially recoverable; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance.

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

As at 30 June 2017, the Group has completed the ground work and drilling of 274 CBM wells, among which 225 wells were in production, representing no change in number of well compared with the number of wells at the end of 2016. It was mainly attributed to the fact that the Company spent part of funds and put certain efforts in stabilizing and increasing the output of producing wells, which, to some extent, has led to slowdown of construction of new wells. The existing gas output wells produce approximately 800 cubic meters of gas on average per day. The Group expected that by the end of 2017, the number of total drills and wells in production will reach 288 and 264 respectively and the total gas output will exceed 200,000 cubic meters per day.

### **Liquefaction operation**

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

## **Marketing and sales**

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

## **Liquidity, Financial Resources and Capital Structure**

As at 30 June 2017, the Group had net assets of approximately RMB398,830,000, including cash and bank balances of approximately RMB11,536,000. To minimise financial risks, the Group implements stringent financial and risk management strategies and avoids the use of highly-g geared financing arrangements. The Group's gearing ratio, calculated by the Group's total external borrowings divided by its shareholders' fund, was approximately 20.64%.

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

## **Employees**

As at 30 June 2017, the Group has an aggregate of 545 employees, of which 101 are research and development staff, 259 are engineering and customer service staff, 138 administrative staff and 47 marketing staff. During the Interim period, the staff cost (including Directors' remuneration) was approximately RMB12,670,000 (six months ended 30 June 2015: approximately RMB13,425,000). The salary and bonus policy of the Group is principally determined by the performance of the individual employee. The Group will, on an ongoing basis, provides opportunity for professional development and training to its employees. The Company has also adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the paragraph headed "Share Option Scheme" in this announcement.

### **Risk in Foreign Exchange**

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

### **Significant investment, material acquisitions and disposal of subsidiaries**

Save as disclosed in this announcement, the Group did not have any significant investment, material acquisition and disposal of subsidiaries and associated companies during the Interim Period.

### **Outlook**

The upstream business of the Company is improving steadily and the well construction and gas output are both increasing constantly. Apart from constructing new wells, the Company made technological upgrade to some old wells to improve production capacity and output, laying a solid foundation for the Company's long-term performance. With the steady increase in the number of upstream wells and gas output, the foundation of the Company's upstream business is increasingly consolidated and the advantage of the Group's vertical integration business will emerge. In recent years, the unfavorable bottleneck of raw gas shortage will gradually be tackled and the production capacity of our LNG plants will be fully unleashed. Together with the increase in the proportion of self-produced LNG, the Company will be gradually less affected by external factors and the uncontrollable risks involved in the operation of the Company will be lowered. It is projected that by the end of 2017, the daily output of natural gas exploration business will break through beyond 200,000 cubic meters.

As there are growing concerns over the environmental issues, it is foreseen that the highly polluted energy will be eliminated from the market more rapidly and the use of replaceable clean energy will be more popular, resulting in a keener market demand for natural gas. Although the production capacity of natural gas has been increasing significantly in recent years, the projected demand will not be satisfied still. The demand growth of natural gas market will continue to retain its strong momentum. However, the drop in selling prices of natural gas has resulted in operating losses. Management of the Company will spare no effort in overcoming difficulties and be devoted to making contribution to the Company's profit margin and long-term development.

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

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

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

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

### Long positions in shares, underlying shares and debentures of the Company

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

#### Notes:

- Such shares are owned by Jumbo Lane Investments Limited.

Mr. Wang Zhong Sheng owns 100% interest in the issued share capital of Jumbo Lane Investments Limited and he is taken to be interested in the shares owned by Jumbo Lane Investments Limited pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

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

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. The Group had not issued any debentures during the Interim Period.

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

As at 30 June 2017, the following persons (other than the Directors or chief executive of the Company as disclosed above) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

##### **Long positions in shares**

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

##### *Notes:*

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

Save as disclosed above, as at 30 June 2017, no other person (other than the Directors or chief executive of the Company) had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.



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

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

## **SHARE OPTION SCHEME**

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

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

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

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

| Name and category of participants | As at 1 January 2017 | Granted during the period | Exercised during the period | Cancelled/lapsed during the period | As at 30 June 2017 | Date of grant of share options | Exercise period of share options | Exercise price of per share as at the date of grant of share options | Adjusted exercise price per share option |
|-----------------------------------|----------------------|---------------------------|-----------------------------|------------------------------------|--------------------|--------------------------------|----------------------------------|--|--|
| <i>Executive Directors</i>        |                      |                           |                             |                                    |                    |                                |                                  |  |  |
| Mr. Wang Zhong Sheng              | 324,750              | -                         | -                           | -                                  | 324,750            | 30/5/2011                      | 30/5/2011-29/5/2021              | 0.495  | 3.81                                     |
| Mr. Fu Shou Gang                  | 324,750              | -                         | -                           | -                                  | 324,750            | 30/5/2011                      | 30/5/2011-29/5/2021              | 0.495  | 3.81                                     |
|                                   | 649,500              | -                         | -                           | -                                  | 649,500            |                                |                                  |  |  |
| Employees                         | 5,486,976            | -                         | -                           | -                                  | 5,486,976          | 30/5/2011                      | 30/5/2011-29/5/2021              | 0.495  | 3.81                                     |
| Consultants                       | 25,982,598           | -                         | -                           | -                                  | 25,982,598         | 30/5/2011                      | 30/5/2011-29/5/2021              | 0.495  | 3.81                                     |
|                                   | <u>32,119,074</u>    | <u>-</u>                  | <u>-</u>                    | <u>-</u>                           | <u>32,119,074</u>  |                                |                                  |  |  |

*Notes:*

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

|                  | Number of options | Vesting conditions   | Remaining Contractual life of options |
|------------------|-------------------|--|---------------------------------------|
| Options granted: |                   |  |                                       |
| 30 May 2011      | 215,220,000       | Vest immediately   | 10 years                              |
| 30 May 2011      | 43,080,000        | Half on each of the first and second anniversaries of grant date | 10 years                              |

(ii) The number and weighted average exercise prices of options are as follows:

|                                  | <b>Weighted<br/>average<br/>exercise price<br/>HK\$</b> | <b>Number of<br/>options</b> |
|----------------------------------|---|------------------------------|
| Outstanding as at 1 January 2017 | 3.81  | 32,119,074                   |
| Granted during the period        | –   | –                            |
| Outstanding as at 30 June 2017   | 3.81  | 32,119,074                   |
| Exercisable as at 30 June 2017   | 3.81  | 32,119,074                   |

The options outstanding as at 30 June 2017 had an exercise price of HK\$3.81 and a weighted average remaining contractual life of 3.9 years.

As at the date of this announcement, the total number of shares available for issue under the New Share Option Scheme was 32,119,074 ordinary shares, representing approximately 2.43% of the issued shares of the Company.

The subscription price per share under the New Share Option Scheme is solely determined by the Board, and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer to grant option; and (iii) the nominal value of a share on the date of offer to grant option, provided that in the event of fractional prices, the subscription price per share shall be rounded upwards to the nearest whole cent.

## **CONTINGENT LIABILITIES**

As at 30 June 2017, the Group had no material contingent liabilities.

## **AMOUNT OF CAPITALISED INTEREST**

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

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

As at 30 June 2016, the Company had outstanding convertible bonds convertible to 94,145,021 conversion shares and outstanding options to subscribe for 32,119,074 Shares under the share option scheme adopted on 18 May 2011. Details of New Share Option Scheme are set out in pages 25 to 27 of this announcement.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the Interim Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company nor any or its subsidiaries.

## **AUDIT COMMITTEE**

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

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

During the Interim Period, the audit committee has held two meeting. The Group's unaudited consolidated results for the Interim Period have been reviewed and commented by the audit committee members.

In order to maintain a high quality of Corporate Governance, the audit committee concluded that the Group has employed sufficient staff for the purpose of accounting, financial and internal control.

## **CORPORATE GOVERNANCE**

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

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

Under code provision A.2.1 of the HKSE Code, the roles of chairman and the chief executive should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive”. This deviates from the code provision A.2.1 of the HKSE Code.

Mr. Wang Zhong Sheng, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 of the HKSE Code and will continue to consider the feasibility of appointing a separate chief executive. The Company will make timely announcement if the chief executive has been appointed.

The Company has adopted a code of conduct regarding securities dealings by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specified enquiry of all Directors, the Company was not aware of any non-compliance with such code of conduct during the Interim Period.

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

By order of the Board  
**Wang Zhong Sheng**  
*Chairman*

China, 11 August 2017

*As at the date hereof, the executive Directors are Mr. Wang Zhong Sheng and Mr. Fu Shou Gang, and the independent non-executive Directors are Mr. Luo Wei Kun, Ms. Pang Yuk Fong and Mr. Wang Zhi He.*