China Leason CBM & Shale Gas Group Company Limited
中國聯盛煤層氣頁岩氣產業集團有限公司

(formerly known as China Leason Investment Group Co., Limited 中國聯盛投資集團有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8270)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2011 AND RESUMPTION OF TRADING

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

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

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

This announcement, for which the directors (the "Directors") of China Leason CBM & Shale Gas 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.

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

HIGHLIGHTS

- For the year ended 31 December 2011, the Group's turnover amounted to RMB253,849,000, representing an increase of 7.10% over that of the previous year.
- For the year ended 31 December 2011, the Group's loss for the year amounted to RMB49,335,000, whereas there was a loss of RMB22,466,000 for previous year.
- The Group's loss per share was RMB1.53 cent (2010: RMB1.17 cent).
- The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2011.

ANNUAL RESULTS

The board of Directors (the "Board") of the Company announces the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011 together with the comparative figures for the last financial year as follows:

Consolidated Income Statement
For the year ended 31 December 2011

	Notes	**2011** ***RMB'000***	2010 *RMB'000*
Continuing operations			
Turnover	*3*	**253,849**	230,989
Cost of sales		**(239,678)**	(205,256)
Gross profit		**14,171**	25,733
Other revenue and net income	*3*	**36,115**	138
Distribution costs		**(1,733)**	(4,186)
Administrative expenses		**(59,329)**	(29,187)
Other operating expenses		**(4,260)**	(648)
Finance costs	*5(c)*	**(8,762)**	(9,681)
Gain on remeasuring existing interest in an available-for-sale investment on acquisition		**—**	4,960
Fair value gain on other financial assets		**17,051**	—
Fair value (loss)/gain on the derivative component of convertible bonds		**(6,487)**	3,223
Impairment loss on goodwill		**(21,492)**	—
Loss before taxation	*5*	**(34,726)**	(9,648)
Income tax	*6*	**(14,609)**	(871)
Loss for the year from continuing operations		**(49,335)**	(10,519)
Discontinued operations			
Loss for the year from discontinued operations		**—**	(11,947)
Loss for the year		**(49,335)**	(22,466)
Attributable to:			
Equity shareholders of the Company		**(45,016)**	(20,493)
Non-controlling interests		**(4,319)**	(1,973)
		(49,335)	(22,466)

	Notes	**2011**	2010
		RMB	*RMB*
Loss per share	*7*		
From continuing and discontinued operations			
— Basic		**(1.53) cents**	(1.17) cents
— Diluted		**(1.53) cents**	(1.17) cents
From continuing operations			
— Basic		**(1.53) cents**	(0.49) cents
— Diluted		**(1.53) cents**	(0.49) cents

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
Loss for the year	**(49,335)**	(22,466)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of foreign subsidiaries	**2,231**	2,195
Reclassification adjustments relating to foreign operations disposed of during the year	**—**	(1,884)
	2,231	311
Total comprehensive expense for the year	**(47,104)**	(22,155)
Total comprehensive expense attributable to:		
Equity shareholders of the Company	**(42,785)**	(20,182)
Non-controlling interests	**(4,319)**	(1,973)
	(47,104)	(22,155)

Consolidated Statement of Financial Position
At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Goodwill	8	**269,637**	133,308
Property, plant and equipment		**481,040**	295,428
Prepaid lease payments for land under operating leases		**35,119**	29,294
Intangible assets	9	**395,474**	156,502
Deposits and prepayments		**33,682**	22,673
Derivative component of convertible bonds	12	**—**	6,621
Deferred tax assets		**189**	302
		1,215,141	644,128
Current assets			
Prepaid lease payments for land under operating leases		**810**	673
Financial assets at fair value through profit or loss		**200**	—
Other financial assets		**17,051**	—
Inventories		**2,597**	2,062
Trade and other receivables	10	**138,758**	42,182
Tax recoverable		**687**	687
Cash and cash equivalents		**21,698**	23,567
		181,801	69,171
Current liabilities			
Trade and other payables	11	**127,400**	108,015
Bank and other borrowings due within one year		**62,900**	60,000
Obligations under finance leases		**3,420**	—
Tax payable		**13,556**	621
		207,276	168,636
Net current liabilities		**(25,475)**	(99,465)
Total assets less current liabilities		**1,189,666**	544,663
Non-current liabilities			
Bank borrowings		**—**	8,000
Obligations under finance leases		**4,256**	—
Convertible bonds	12	**—**	43,137
Deferred tax liabilities		**104,013**	39,198
		108,269	90,335
Net assets		**1,081,397**	454,328

	2011	2010
	RMB'000	*RMB'000*
Capital and reserves		
Share capital	**34,828**	20,681
Reserves	**1,017,594**	412,353
Equity attributable to equity shareholders of the Company	**1,052,422**	433,034
Non-controlling interests	**28,975**	21,294
Total equity	**1,081,397**	454,328

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Company											
	Share capital	Share premium	Merger reserve	Contributed surplus	General reserve	Translation reserve	Share option reserve	Convertible bonds reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010	12,921	347,368	(2,351)	—	5,351	(1,014)	—	—	(94,953)	267,322	2,527	269,849
Loss for the year	—	—	—	—	—	—	—	—	(20,493)	(20,493)	(1,973)	(22,466)
Other comprehensive income for the year	—	—	—	—	—	311	—	—	—	311	—	311
Total comprehensive income/(expense) for the year	—	—	—	—	—	311	—	—	(20,493)	(20,182)	(1,973)	(22,155)
Issue of new shares												
— Share placement	2,395	34,012	—	—	—	—	—	—	—	36,407	—	36,407
— Conversion of convertible bonds	5,365	103,626	—	—	—	—	—	(31,245)	—	77,746	—	77,746
Transaction costs attributable to issue of new shares	—	(474)	—	—	—	—	—	—	—	(474)	—	(474)
Recognition of equity component of convertible bonds	—	—	—	—	—	—	—	47,055	—	47,055	—	47,055
Disposal of subsidiaries	—	—	2,351	25,160	(5,351)	—	—	—	3,000	25,160	—	25,160
Non-controlling interests arising from acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	20,740	20,740
Balance at 31 December 2010 and 1 January 2011	20,681	484,532	—	25,160	—	(703)	—	15,810	(112,446)	433,034	21,294	454,328
Loss for the year	—	—	—	—	—	—	—	—	(45,016)	(45,016)	(4,319)	(49,335)
Other comprehensive income for the year	—	—	—	—	—	2,231	—	—	—	2,231	—	2,231
Total comprehensive income/(expense) for the year	—	—	—	—	—	2,231	—	—	(45,016)	(42,785)	(4,319)	(47,104)
Issue of new shares												
— Share placement	4,744	176,717	—	—	—	—	—	—	—	181,461	—	181,461
— Conversion of convertible bonds	9,403	222,732	—	—	—	—	—	(188,222)	—	43,913	—	43,913
Transaction costs attributable to issue of new shares	—	(5,615)	—	—	—	—	—	—	—	(5,615)	—	(5,615)
Capital contribution by non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	12,000	12,000
Recognition of equity component of convertible bonds	—	—	—	—	—	—	—	413,621	—	413,621	—	413,621
Equity-settled share based payments	—	—	—	—	—	—	28,793	—	—	28,793	—	28,793
Lapse of share options	—	—	—	—	—	—	(417)	—	417	—	—	—
Transfer to accumulated losses	—	—	—	(25,160)	—	—	—	—	25,160	—	—	—
Transfer to general reserve	—	—	—	—	1,523	—	—	—	(1,523)	—	—	—
Balance at 31 December 2011	**34,828**	**878,366**	**—**	**—**	**1,523**	**1,528**	**28,376**	**241,209**	**(133,408)**	**1,052,422**	**28,975**	**1,081,397**

Consolidated Statement of Cash Flows
For the year ended 31 December 2011

	2011 *RMB'000*	2010 *RMB'000*
Cash flows from operating activities		
Loss before taxation		
From continuing operations	**(34,726)**	(9,648)
From discontinued operations	**—**	(10,548)
	(34,726)	(20,196)
Adjustments for:		
Depreciation of property, plant and equipment	**24,590**	20,253
Amortisation of prepaid lease payments for land under operating leases	**738**	517
Amortisation of intangible assets	**25,369**	10,485
Impairment loss on goodwill	**21,492**	—
Interest income	**(963)**	(102)
Loss on disposal of property, plant and equipment	**1,338**	—
Recognition of equity-settled share based payments	**18,743**	—
Impairment loss on other receivables	**1,000**	—
Net realised and unrealised gains on trading securities	**—**	(475)
Fair value gain on other financial assets	**(17,051)**	—
Finance costs	**8,762**	9,749
Gain on remeasuring existing interest in an available-for-sale investment on acquisition	**—**	(4,960)
Fair value loss/(gain) on the derivative component of convertible bonds	**6,487**	(3,223)
	55,779	12,048
Changes in working capital		
(Increase)/decrease in inventories	**(137)**	2,701
Increase in trade and other receivables	**(74,521)**	(26,375)
(Decrease)/increase in trade and other payables	**(11,939)**	17,444
Decrease in trading securities	**—**	(9,058)
Decrease in deferred income	**—**	(3,234)
Cash used in operations	**(30,818)**	(6,474)
PRC Enterprise Income Tax paid	**(4,069)**	(6,982)
Net cash used in operating activities	**(34,887)**	(13,456)

	2011	2010
	RMB'000	*RMB'000*
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	**(132,778)**	(32,507)
Proceeds from disposal of property, plant and equipment	**600**	—
Prepaid lease payments for land under operating leases	**—**	(10,935)
Deposits paid for acquisition of property, plant and equipment	**(10,712)**	(8,161)
Deposits paid for acquisition of interests in land under operating leases	**—**	(1,987)
Payment for purchase of financial assets	**(200)**	—
Interest received	**963**	102
Net cash inflow/(outflow) on acquisition of subsidiaries	**754**	(7,307)
Net cash outflow on disposal of subsidiaries	**—**	(34,513)
Net cash used in investing activities	**(141,373)**	(95,308)
Cash flows from financing activities		
Capital contribution by non-controlling interest of a subsidiary	**12,000**	—
Proceeds from issue of new shares	**181,461**	36,407
Transaction costs for issue of new shares	**(5,615)**	(474)
Transaction costs for issue of convertible bonds	**—**	(528)
Proceeds from new bank and other borrowings	**—**	6,000
Repayment of bank borrowings	**(5,100)**	—
Interest paid on bank and other borrowings	**(5,344)**	(4,417)
Capital element of finance leases	**(2,741)**	—
Interest element of finance leases	**(1,129)**	—
Net cash generated from financing activities	**173,532**	36,988
Net decrease in cash and cash equivalents	**(2,728)**	(71,776)
Cash and cash equivalents at 1 January	**23,567**	96,292
Effect of foreign exchange rate changes	**859**	(949)
Cash and cash equivalents at 31 December	**21,698**	23,567

Notes:

1. BASIC OF PREPARATION OF THE FINANCIAL STATEMENT

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The HKICPA has issued certain new and revised HKFRSs which are or have become effective. It has also issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Going concern

The Group incurred a net loss of approximately RMB49,335,000 and net operating cash outflows of approximately RMB34,887,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB25,475,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, the Directors had adopted the going concern basis in the preparation of the financial statements of the Group based on the following factors:

(1) Other borrowings comprising RMB10,000,000 and RMB40,000,000 were due for repayment on 7 July 2012 and 27 August 2012 respectively in accordance with the loan agreements entered into between the Group and a finance company which is a non-controlling shareholder of a subsidiary of the Company. However, prior to the date of approval of these financial statements, these borrowings had been rolled over for a further 12 months and will be due for repayment on 6 July 2013 and 26 August 2013 respectively. Up to the date of approval of these financial statements, the finance company has not indicated its intention to withdraw the credit facilities granted to the Group;

(2) Mr. Wang Zhong Sheng ("Mr. Wang"), a substantial shareholder, the chairman and executive director of the Company, has undertaken not to demand for the repayment of the amount due to him totalling approximately RMB7,852,000 as at 31 December 2011 until the Group is able to do so;

(3) Mr. Wang has confirmed to provide continuing financial support to the Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due in the foreseeable future; and

(4) Management is formulating, and will implement, cost saving measures to improve the Group's financial performance and cash flows.

Based on the aforesaid factors, the Directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future. According, the financial statements have been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write-down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Right Issues
Amendments HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) Int — 19	Extinguishing Financial Liabilities with Equity Instruments

The amendments to HK (IFRIC) — Int 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) Int — 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- HKAS 24 (as revised in 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (as revised in 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirement. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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 year ended 31 December 2011 and which have not been adopted in these financial statements.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 cycle[4]
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 1	Government Loans[4]
Amendments to HKFRS 7	Disclosures-Transfers of Financial Assets[1]
	Disclosures-Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2014.
[6] Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of what 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 OTHER REVENUE AND NET INCOME

The Group principally engaged in sales of natural gas in the People's Republic of China (the "PRC"). During the year ended 31 December 2010, the Group discontinued the operations relating to the development and sales of computer software, resale of computer hardware and provision of system integration and maintenance services.

Turnover

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 year is as follows:

	2011	2010
	RMB'000	*RMB'000*
Continuing operations		
Sales of liquefied coalbed gas	**212,067**	212,305
Provision of liquefied coalbed gas logistics services	**13,790**	264
Sales of piped natural gas (including provision of gas supply connection services)	**27,992**	18,420
	253,849	230,989
Discontinued operations		
Sales of computer software	**—**	40
Resale of computer hardware	**—**	996
Maintenance and other services fees	**—**	4,990
	—	6,026
	253,849	237,015

Other revenue and net income

	2011	2010
Continuing operations		
Interest income from bank deposits	**102**	40
Other interest income	**861**	—
Government grants		
— PRC Enterprise Income Tax refund	**930**	—
Other income *(note)*	**34,222**	98
	36,115	138
Discontinued operations		
Value-added tax refund	**—**	401
Net realised and unrealised gains on trading securities	**—**	475
Interest income from bank deposits	**—**	62
Rental income from investment properties	**—**	214
	—	1,152
	36,115	1,290

Note:

Included in other income for the year ended 31 December 2011 was a compensation income of approximately RMB34,060,000 to compensate for the shortage of electricity supply in the industrial zone where the Group operates. There are no other specific conditions attached to the compensation and, therefore, the Group recognised the compensation income in profit or loss for the year.

4. SEGMENT REPORTING

The Group's operating segments are determined based on information reported to the chief operating decision maker (the "CODM"), being the Company's Board, for the purpose of resources allocation and performance assessment. In previous years, (i) liquefied coalbed gas (including liquefied coalbed gas logistics) (i.e. the manufacture and sales of liquefied coalbed gas to piped natural gas providers and customers in the PRC through liquefied coalbed gas transportation vehicles) and (ii) piped natural gas (i.e. the reprocessing of liquefied coalbed gas, construction of gas pipelines and supply of piped natural gas to customers in the PRC), were reported to the CODM as stand-alone business units and constituted separate operating segments. Following a change in the Group's operating and reporting structure, starting from the year 2011, such business activities are combined into a sole operating segment before being reported to the CODM. Accordingly, the CODM now reviews the Group's internal reporting, assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of sale of natural gas in the PRC. Therefore, the CODM considers there is only one operating segment under the requirements of HKFRS 8 *Operating Segments*. In this regard, no segment information is presented.

Additional disclosure in relation to segment information is not presented as the Board assess the performance of the sole operating segment identified based on the consistent information as disclosed in the financial statements.

The total segment result is equivalent to total comprehensive expense for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

(a) Geographical information

The Group principally operates in Hong Kong and the PRC.

The Group's turnover from external customers and information about its non-current assets by geographical locations are detailed below:

	Turnover from external customers		**Non-current assets***	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hong Kong	**—**	—	**449**	21
PRC	**253,849**	237,015	**1,214,503**	643,805
	253,849	237,015	**1,214,952**	643,826

* Non-current assets excluding deferred tax assets.

(b) Information about major customers

Turnover from customers of corresponding years contributing over 10% of total revenue of the Group is as follows:

	2011	2010
	RMB'000	*RMB'000*
Customer A	**35,371**	36,512
Customer B	**N/A[1]**	32,926
Customer C	**32,042**	25,220
Customer D	**28,838**	N/A[1]
	96,251	94,658

[1] The corresponding revenue did not contribute over 10% of the total turnover of the Group.

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2011	2010
	RMB'000	*RMB'000*
a) Staff costs (including Directors' emoluments)		
Continuing operations		
Salaries, wages and other benefits	**16,800**	7,835
Retirement benefit scheme contributions	**2,174**	902
Equity-settled share-based payment expenses	**9,193**	—
	28,167	8,737
Discontinued operations		
Salaries, wages and other benefits	**—**	11,456
Retirement benefit scheme contributions	**—**	848
	—	12,304
Total staff costs	**28,167**	21,041
b) Other items		
Continuing operations		
Cost of inventories	**139,330**	131,992
Depreciation of property, plant and equipment	**24,590**	19,659
Equity-settled share-based payment expenses in respect of share options granted to consultants	**9,550**	—
Amortisation of prepaid lease payments for land under operating leases	**738**	453
Amortisation of intangible assets (included in cost of sales)	**25,369**	10,485
Impairment of other receivables (included in other operating expenses)	**1,000**	—
Net foreign exchange loss	**544**	26
Net loss on disposal of property, plant and equipment (included in other operating expenses)	**1,338**	—
Operating lease charges in respect of land and buildings	**1,368**	1,374
Discontinued operations		
Cost of inventories	**—**	7,427
Depreciation of property, plant and equipment	**—**	594
Amortisation of prepaid lease payments for land under operating leases	**—**	64
Operating lease charges in respect of land and buildings	**—**	156

	2011	2010
	RMB'000	*RMB'000*
c) Finance costs		
Continuing operations		
Interest expenses on bank and other borrowings wholly repayable within five years	**5,344**	4,349
Effective interest expense on promissory notes	**—**	2,159
Effective interest expense on convertible bonds	**2,289**	3,173
Finance charges on obligations under finance leases	**1,129**	—
	8,762	9,681
Discontinued operations		
Interest expenses on bank borrowings wholly repayable within five years	**—**	68
Total interest expense on financial liabilities not at fair value through profit or loss	**8,762**	9,749

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

(a) Continuing operations

	2011	2010
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax ("EIT")		
Provision for the year	**17,060**	3,481
Deferred tax		
Origination and reversal of temporary differences	**(2,451)**	(2,610)
Income tax charge	**14,609**	871

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2011 (2010: 16.5%). No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2011 (2010: Nil).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

A PRC subsidiary of the Group, namely, 河北順泰能源有限公司 (transliterated as Hebei Shuntai Energy Resources Company Limited) ("Hebei Shuntai") is entitled to a preferential EIT refund treatment. The refund is equal to 100%, 50% and 10% of the EIT paid to the PRC State Bureau of Taxation for the period from June 2010 to December 2010, from January 2011 to December 2013 and from January 2014 onwards, respectively.

(b) Discontinued operations

	2011	2010
	RMB'000	*RMB'000*
Current tax — PRC EIT		
Provision for the year	—	66
Under-provision in prior years	—	924
	—	990
Deferred taxation		
Origination and reversal of temporary differences	—	409
Income tax charge	—	1,399

Two of the former PRC subsidiaries of the Group (under discontinued operations), namely, 福建新意科技有限公司 (transliterated as Fujian Shine Science & Technology Co., Ltd.) ("Fujian Shine") and 上海新意新科技有限公司 (transliterated as Shanghai Shine Science & Technology Co., Limited ("Shanghai Shine"), were entitled to a reduced EIT rate of 15% as "encouraged hi-tech enterprises".

7. LOSS PER SHARE

(a) For continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to equity shareholders of the Company is based on the following data:

	2011	2010
	RMB'000	*RMB'000*
Loss		
Loss for the year attributable to equity shareholders of the Company for the purposes of basic and diluted loss per share	**(45,016)**	(20,493)

Number of shares

	2011	2010
	'000	*'000*
Issued ordinary shares at 1 January	**2,256,675**	1,361,815
Effect of issue of shares by share placement	**351,257**	223,111
Effect of conversion of convertible bonds	**341,712**	169,678
Weighted average number of ordinary shares at 31 December for the purposes of basic and diluted loss per share	**2,949,644**	1,754,604

Diluted loss per share attributable to equity shareholders of the Company for the years ended 31 December 2011 and 2010 is the same as the basic loss per share as the effect of dilutive potential ordinary shares from convertible bonds and share options are anti-dilutive.

(b) From continuing operations

The calculation of basic and diluted loss per share from continuing operations attributable to equity shareholders of the Company is based on the following data:

	2011	2010
	RMB'000	*RMB'000*
Loss		
Loss for the year attributable to equity shareholders of the Company	**(45,016)**	(20,493)
Less: Loss for the year attributable from discontinued operations	**—**	11,947
Loss for the purposes of basic and diluted loss per share from continuing operations	**(45,016)**	(8,546)

The denominators used are the same as those detailed in note (a) above for both basic and diluted loss per share.

(c) From discontinued operations

For the year ended 31 December 2010, the basic and diluted loss per share for the discontinued operation was RMB0.68 cents per share, based on the loss for the year from discontinued operations of approximately RMB11,947,000 and the denominators used are the same as those detailed in note (a) above for both basic and diluted loss per share.

8. GOODWILL

	RMB'000
Cost:	
At 1 January 2010	76,802
Acquisition of subsidiaries	109,477
At 31 December 2010 and 1 January 2011	186,279
Acquisition of subsidiaries *(note 14)*	157,821
At 31 December 2011	344,100
Accumulated impairment losses:	
At 1 January 2010	52,971
Impairment loss	—
At 31 December 2010 and 1 January 2011	52,971
Impairment loss	21,492
At 31 December 2011	74,463
Carrying amount:	
At 31 December 2011	**269,637**
At 31 December 2010	133,308

Impairment test for cash-generating units ("CGU") containing goodwill

Goodwill has been allocated for impairment testing purposes to the following groups of CGUs:

	2011	2010
	RMB'000	*RMB'000*
Piped natural gas located in Guangxi	**2,339**	23,831
Coalbed methane exploration and development, natural gas liquefaction and liquefied natural gas ("LNG") distribution	**267,298**	109,477
	269,637	133,308

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Coalbed methane exploration and development, natural gas liquefaction and LNG distribution

The recoverable amount of this CGU is determined based on value in use calculations with reference to an independent professional valuation. The key assumptions for the value in use calculations are those regarding the discount rate and growth in revenue and direct costs during the year. Management estimates the discount rate of 18.67% (2010: 18.53%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past experience and expectations of changes in the market.

The value in use calculations are derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond the 5-year period have been extrapolated using a growth rate of 3% (2010: 3%) per annum which is based on industry growth forecasts.

The Directors are of the view that, based on its assessment, there was no impairment of goodwill as of 31 December 2011 in respect of this CGU (2010: Nil).

In the opinion of the Directors, any reasonable possible change in any of these assumptions would not cause the carrying amount of this CGU to exceed its recoverable amount.

Piped natural gas located in Guangxi

The recoverable amount of this CGU is determined based on value in use calculations with reference to an independent professional valuation. The key assumptions for the value in use calculations are those regarding the discount rate and growth in revenue and direct costs during the year. Management estimates the discount rate of 17.1% (2010: 13.65%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Change in selling prices and direct costs are based on past experience and expectations of changes in the market.

The value in use calculations are derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond the 5-year period have been extrapolated using a growth rate of 5% (2010: 5%) per annum which is based on industry growth forecasts.

Based on value in use calculations at 31 December 2011, the recoverable amount of the piped natural gas CGU located in Guangxi was found to be less than its carrying amount. Accordingly, impairment loss on goodwill allocated to the piped natural gas CGU located in Guangxi of approximately RMB21,492,000 (2010: RMB Nil) has been recognised in the consolidated income statement for the year ended 31 December 2011.

9. INTANGIBLE ASSETS

	Exclusive right for piped natural gas operation *RMB'000*	Operating license for liquefied coalbed gas logistics *RMB'000*	Computer development software costs *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2010	70,470	—	29,069	99,539
Acquisition of subsidiaries	—	97,300	—	97,300
Disposal of subsidiaries	—	—	(29,069)	(29,069)
At 31 December 2010 and 1 January 2011	70,470	97,300	—	167,770
Acquisition of subsidiaries *(note 14)*	264,341	—	—	264,341
At 31 December 2011	334,811	97,300	—	432,111
Accumulated amortisation and impairment				
At 1 January 2010	783	—	29,069	29,852
Amortisation for the year	1,566	8,919	—	10,485
Disposal of subsidiaries	—	—	(29,069)	(29,069)
At 31 December 2010 and 1 January 2011	2,349	8,919	—	11,268
Amortisation for the year	5,909	19,460	—	25,369
At 31 December 2011	8,258	28,379	—	36,637
Carrying amount				
At 31 December 2011	**326,553**	**68,921**	**—**	**395,474**
At 31 December 2010	68,121	88,381	—	156,502

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Amounts due from directors	**568**	470
Trade and bills receivables	**23,109**	7,129
Other receivables	**52,574**	3,847
Amounts due from related companies	**13,468**	6,138
Loans and receivables	**89,719**	17,584
Advances to suppliers	**2,591**	8,886
Prepayment for acquisition of property, plant and equipment	**22,041**	3,011
Other prepayments	**22,659**	7,176
Other tax recoverable	**1,748**	5,525
	138,758	42,182

The ageing analysis of the trade and bills receivables (net of allowance for doubtful debts) at the end of the reporting period is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**20,718**	3,811
More than 1 month but less than 3 months	**—**	3,200
More than 3 months but less than 6 months	**2,340**	—
More than 6 months but less than 12 months	**1**	—
More than 12 months	**50**	118
	23,109	7,129

11. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**50,962**	30,886
Amounts due to directors	**7,852**	27,647
Amount due to a non-controlling shareholder of a subsidiary	**1,569**	1,569
Accured expenses and other payables	**5,501**	3,453
Payables for acquisition of property, plant and equipment	**50,250**	24,562
Financial liabilities measured at amortised cost	**116,134**	88,117
Deposits received from customers	**9,249**	15,092
Other taxes payables	**2,017**	4,806
	127,400	108,015

The ageing analysis of the trade payables at the end of the reporting period is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**5,102**	4,955
More than 1 month but less than 3 months	**5,556**	10,068
More than 3 months but less than 6 months	**17,628**	8,224
More than 6 months but less than 12 months	**22,440**	7,637
More than 12 months	**236**	2
	50,962	30,886

12. CONVERTIBLE BONDS

The movements of the liability component, derivative component and equity component of the convertible bonds are as follows:

	Liability component of convertible bonds	Derivative component of convertible bonds	Equity component of convertible bonds	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Principal amount of convertible bonds at date of issue *(note (a))*	128,573	(10,770)	47,197	165,000
Transaction costs	(386)	—	(142)	(528)
	128,187	(10,770)	47,055	164,472
Interest expenses	3,173	—	—	3,173
Conversion of bonds	(84,750)	7,004	(31,245)	(108,991)
Fair value gain	—	(3,223)	—	(3,223)
Exchange adjustments	(3,473)	368	—	(3,105)
At 31 December 2010 and 1 January 2011	43,137	(6,621)	15,810	52,326
Issued during the year *(note (b))*	—	—	413,621	413,621
Interest expenses	2,289	—	—	2,289
Conversion of bonds	(43,913)	—	(188,222)	(232,135)
Fair value loss	—	6,487	—	6,487
Exchange adjustments	(1,513)	134	—	(1,379)
At 31 December 2011	**—**	**—**	**241,209**	**241,209**

Notes:

(a) As part of the consideration for the acquisition of Million Ideas Investments Limited during the year ended 31 December 2010, on 16 July 2010, the Company issued HK$ denominated zero-coupon convertible bonds (the "2010 Convertible Bonds") due 15 July 2013 with aggregate principal amount of HK$187,500,000 (equivalent to approximately RMB165,000,000). The 2010 Convertible Bonds had a maturity period of 3 years from the issue date and were (i) convertible at the option of the bondholder into 937,500,000 ordinary shares of HK$0.01 each in the capital of the Company at any time from 16 July 2010 to 15 July 2013 at a conversion price of HK$0.20 per share; and (ii) redeemable at the option of the Company at any time from 16 July 2010 to 15 July 2013 at 100% of the principal amount.

(b) On 12 July 2011, the Company issued HK$ denominated zero-coupon convertible bonds (the "2011 Convertible Bonds") due 11 July 2013 for aggregate principal amount of HK$499,000,000 (equivalent to approximately RMB413,621,000) as consideration for the acquisition of the Wealthy Talent Group *(note 14)*. The 2011 Convertible Bonds have a maturity period of 2 years from the issue date and are (i) convertible at the option of the bondholder into 1,919,230,769 ordinary shares of HK$0.01 each in the capital of the Company at any time from 12 July 2011 to 11 July 2013 at a conversion price of HK$0.26 per share; and (ii) redeemable at the option of the Company at any time from 12 July 2011 to 11 July 2013 at 100% of the principal amount. The Company is not required, upon the maturity of the 2011 Convertible Bonds, to redeem or pay any outstanding principal amount of the 2011 Convertible Bonds.

13. DIVIDENDS

No dividend has been proposed or declared by the Directors for the year ended 31 December 2011 (2010: Nil).

14. ACQUISITION OF SUBSIDIARIES

The Wealthy Talent Group

Pursuant to an acquisition agreement dated 6 April 2011 (as amended by a supplement agreement dated 25 May 2011) entered into between the Company (as purchaser) and Mr. Wang (as vendor) (the "Acquisition Agreements"), the Group acquired from Mr. Wang the entire issued share capital of Wealthy Talent Global Investments Limited for a consideration of HK$499,000,000 (equivalent to approximately RMB413,621,000) (the "Wealthy Talent Group Acquisition") which was satisfied by the issue of the 2011 Convertible Bonds to Mr. Wang.

Wealthy Talent Global Investments Limited, through its wholly-owned subsidiaries, Hong Kong Chung Wo Energy Investments Limited and 洛陽順和能源有限公司 (transliterated as Luoyang Shunhe Energy Company Limited) ("Luoyang Shunhe") (collectively referred to as the "Wealthy Talent Group"), is mainly engaged in the supply of natural gas to its industrial customers through pipelines, LNG trailers and tanks in Ruyang Industrial Zone in Luoyang City, the PRC. It is also engaged in the sales of LNG in Henan Province.

The Wealthy Talent Group Acquisition constituted a major and connected transaction on the part of the Company under the GEM Listing Rules and the resolutions relating thereto were passed by the shareholders of the Company at an extraordinary general meeting held on 20 June 2011. The Wealthy Talent Group Acquisition was completed on 12 July 2011.

	Acquiree's carrying amounts immediately before combination	**Fair value adjustments**	**Fair values**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	71,727	—	71,727
Intangible asset			
— Exclusive right for piped natural gas operation *(note 9)*	—	264,341	264,341
Prepaid lease payments for land under operating leases	4,011	2,689	6,700
Inventories	398	—	398
Trade and other receivables	11,871	—	11,871
Cash and cash equivalents	754	—	754
Tax refundable	56	—	56
Trade and other payables	(32,668)	—	(32,668)
Deferred tax liabilities	(622)	(66,757)	(67,379)
Net identifiable assets and liabilities	55,527	200,273	255,800
Goodwill on acquisition *(note 8)*			157,821
Consideration			413,621
Total consideration satisfied by:			
2011 Convertible Bonds *(note 12)*			413,621
Net cash inflow arising on acquisition:			
Cash and cash equivalents acquired			754

Pursuant to the Acquisition Agreements, Mr. Wang has warranted to the Company that, subject to the terms of the Acquisition Agreements, the adjusted consolidated net profit after tax and excluding the amortisation of intangible assets of the Wealthy Talent Group (the "Net Profit") for the financial years ended 31 December 2011 and 2012 shall not be less than RMB30,000,000 and RMB40,000,000 respectively (the "Warranted Profit"). In the event that the actual Net Profit is less than the Warranted Profit (the "Shortfall") for the financial year ending 31 December 2011, Mr. Wang shall pay to the Company a total sum of 14 times of the Shortfall after the determination of the actual Net Profit for the year ending 31 December 2011. In the event that the actual Net Profit is less than the Warranted Profit for the financial year ending 31 December 2012, Mr. Wang shall pay to the Company a total sum of 10.5 times of the Shortfall after the determination of the actual Net Profit for the year ending 31 December 2012. The payment will be satisfied by means of cancellation of outstanding 2011 Convertible Bonds held by Mr. Wang. If the principal value of the Convertible Bonds held by Mr. Wang is less than the amount payable, the payment shall be made in cash.

The consideration adjustment in relation to the Warranted Profit as described above is accounted for as contingent consideration whose fair values on initial recognition and as at the end of the reporting period were determined by the Directors by reference to an independent professional valuation. The Directors assessed the fair value of the contingent consideration at the date of acquisition was insignificant. As at 31 December 2011, an increase in fair value of contingent consideration of approximately RMB17,051,000 was recognised in profit or loss in the consolidated income statement for the year ended 31 December 2011.

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT

An extract of the Company's independent auditors' report for the year ended 31 December 2011 is as follows:

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2(b)* to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB49,335,000 and net operating cash outflows of approximately RMB34,887,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB25,475,000. These conditions indicate the existence of a material uncertainly that may cast significant doubt about the Group's ability to continue as a going concern.

* *Being Note 1(b) in this annual results announcement*

FINAL DIVIDEND

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a consolidated turnover of approximately RMB253,849,000 for the year, representing an increase of approximately 7.1% compared with last year. The increase was mainly attributable to:

(i) The increase of approximately RMB9,572,000 in turnover for the sales of piped natural gas (including provision of gas supply connection services) and approximately RMB13,526,000 in the provision of liquefied coalbed gas logistics services in China. The stronger sales were supported by the stronger demand from industrial and residential users in most provinces in China.

(ii) However, the gross profit declined approximately RMB11,562,000 as a result of approximately RMB14,884,000 increase in amortisation charges for operating license for liquefied coalbed gas logistics and exclusive right for piped natural gas operation in Ruyang County.

Included in the turnover in 2011, approximately RMB40,473,000, which represents 16% of total revenue, was attributed to the sale of CBM to customer through externally sourced gas by an off-site LNG storage and gasification system installed in the production base of the customer's factory by Luoyang Shunhe, a subsidiary acquired during the year.

The Group recorded a loss for the year attributable to equity shareholders of the Company for approximately RMB45,016,000, compared with the loss attributable to equity shareholders of approximately RMB20,493,000 for last year. The reasons for the loss are as follows:

(i) The increase in administrative expenses for approximately RMB30,142,000, mainly driven by non-cash share-based payment in respect to share options granted amounted to approximately RMB18,743,000, increase in staff costs for approximately RMB2,696,000, and opening up of new offices in Shanxi, Henan and Hong Kong;

(ii) The increase in income tax charge for the year from continuing operations for approximately RMB13,738,000, mainly arising from the tax charge relating to the compensation from the management company of the Ruyang Industrial Zone.

(iii) The loss of approximately RMB21,492,000 arising from impairment on goodwill of our piped natural gas operation as a result of the difficult operating environment that has lasted since 2010 in Guangxi Province, PRC; partly offset by

(iv) The compensation income (included in other income) of approximately RMB34,060,000 to compensate for the delay in completion of power supply system in the industrial zone located in Ruyang County; and

(v) The fair value gain on other financial assets for approximately RMB17,051,000, representing the contingent consideration receivable from a major shareholder, Mr. Wang, in relation to the acquisition of Wealthy Talent Group as referred to in the paragraph "Major and Connected Transaction Involving Issue of Convertible Bonds" in page 35 of this announcement. Given the delay in the completion of power supply system in the Ruyang Industrial Zone in 2012, there is a contingent amount to be benefited by Luoyang Shunhe (by virtue of the Consideration Adjustment Arrangement) when Luoyang Shunhe fails to meet the Warranted Profit of RMB40 million for the year of 2012 after taking into account the compensation on business loss received from the management company of Ruyang Industrial Zone and the operating profit generated on its own. The Board assessed the fair value of the contingent receivable with reference to an independent professional valuation. Given the expected shortfall of the Warranted Profit for year 2012 and the Consideration Adjustment Arrangement by virtue of which the Vendor shall pay to the Purchaser a total sum of 10.5 times of the shortfall (i.e. contingent payment), the present value of the expected amount of contingent payment to be received by the Group is approximately RMB17,051,000. The expected amount of contingent payment is a weighted average of shortfalls under different scenarios of when the power supply system will be completed and Luoyang Shunhe can begin to supply CBM to external customer through externally sourced gas; and therefore what level of compensation income should be expected to be received by Luoyang Shunhe from the management company of Ruyang Industrial Zone for 2012. The contingent payment is expected to be received by the Group by end of the first quarter of 2013, if any.

The trade and other receivables of the Group increased significantly for approximately RMB96,576,000, compared with balances last year. This was mainly attributable to

i) Increase in trade and bills receivable for approximately RMB15,980,000 as a result of expansion of operation scale;

ii) Increase in other receivables for approximately RMB48,727,000, mainly arising from the compensation receivable from the management company of Ruyang Industrial Zone relating to the delay in completion of power supply system; and

iii) Increase in prepayment for acquisition of property, plant and equipment for approximately RMB19,030,000 for the second phase expansion project at the LNG plant in Qinshui County and drilling and pipeline transmission project in Yangcheng.

Significant amount of trade and other receivables have been settled after the year end date. Except the impairment on other receivable amounted to RMB1,000,000, which relates to uncollectable deposits to gas trading companies. To ensure the recoverability of these balances, the Board of the Company regularly reviewed the aging of trade and other receivables balances and the credit policy of individual customers based on their trading volume and credit history. Given that most customers have long established business relationship with our subsidiaries and possess good credit history, the Board of the Company considers that the risk of recoverability is low and will make periodic assessments to ensure that our prepayment for gas supplies and acquisition of property, plant and equipment is reasonable and aligns with the relevant terms of the supply contracts and the related acquisition agreements.

Given the rapid change in operating environment in the gas market, the board of directors have constantly reviewed the fair value of assets and assessed the need for any asset impairment. For 2011, the board of directors had the following conclusion in asset impairment.

Goodwill in piped natural gas located in Guangxi: Impairment of approximately RMB21,492,000 has been made for the excess of recoverable amount of cash generating unit, which represented value of cash-generating assets, of the CGU over the value in use. The Directors' assessment on impairment of goodwill is based on value in use calculations for the CGU by reference to an independent professional valuation. In the valuation, certain major assumptions have been changed to reflect the current situation.

- First, the profit margin decreased mainly driven by 1) the increase in purchase cost due to gas supply tightness in Guangxi Province; 2) lower than expected gas demand in Guangxi due to reduced export of porcelain and ceramic products from the region

- Secondly, the discount rate used for 2011 increased due to 1) the rise in interest rate, 2) higher market risk premium, and; 3) increase in price volatility.

Goodwill in Coalbed methane exploration and development, natural gas liquefaction and LNG distribution: No impairment of goodwill and other assets for the CGU has been made since the Directors' assessed that the value in use of the CGU excessed the recoverable amount, which represented value of cash-generating assets, of the CGU. The Directors' assessment on impairment of goodwill is based on value in use calculations for the CGU by reference to an independent professional valuation. The group structure was changed in 2011 substantially. Before 2011, we only engaged in midstream LNG processing and distribution. In 2011, we turned ourselves into a vertically integrated gas producer through investing in upstream gas exploration and production business, and the acquisition of Luoyang Shunhe. The CGU in the valuation comprises the upstream gas reserve in Yangcheng country, which was invested by the Group during the year, midstream LNG plant and transportation fleet in Shanxi Province, and downstream storage and distribution facilities in Henan Province, including Luoyang Shunhe, and Hebei Province. The increase in goodwill for this CGU during the year was mainly due to the acquisition of Luoyang Shunhe during the year. In the valuation, certain major assumption has been changed to reflect the current situation.

- The board of directors believes that the investment in upstream gas operation would provide a reliable source of gas supply to downstream operation. The Group would be more certain in the assumptions in gas processing volume and gas prices for each segment along the whole CGU; and

- The Group raised the discount rate adopted for 2011 due to 1) the rise in interest rate, 2) higher market risk premium, and; 3) increase in price volatility.

Intangible asset in Luoyang Shunhe Energy Company Limited: The acquisition of Luoyang Shunhe extended the gas value chain by expanding into the downstream distribution network through exclusive right for piped natural gas operation in Ruyang Industrial Zone. In 2011, due to the delay in completion of power supply system in the area, Luoyang Shunhe supplied CBM to customer through externally sourced gas by an off-site LNG storage and gasification system installed in the production base of the customer's factory, instead of selling to customers in the industrial zone. The Board believes that given the guaranteed profit for 2011 and 2012 as well as the stable gas market outlook in China, there was no change in gas sale assumptions for 2013 and beyond. As a result, the Board's assessment on profit and cash flow stream remains unchanged; and therefore there is no need for asset impairment in 2011 either.

Business Review and Development Prospects

Natural gas exploration and extraction: As at 31 December 2011, the Group completed the ground work and drilling of 150 CBM wells, of which 38 wells were put to production or ready for immediate gas output. As at 31 August 2012, the Group already completed the ground work and drilling of 200 CBM wells, of which 80 wells were put to production or ready for immediate gas output. The number of wells drilled was slightly below our previous expectation of 250 wells due to geological and technical difficulties. However, the Group has already solved such geological and technical issues and we expect to accelerate the drilling program in 2013. The Group expects to complete the ground work and drilling of 303 CBM wells by the end of year 2012 and 552 CBM wells by the end of year 2013; and an additional 103 wells to be drilled before the end of 2012 to cost for no more than RMB50 million and the 249 more wells planned for drilling in 2013 to cost for no more than RMB 125 million. Netherland, Sewell & Associates, Inc. (NSAI), an independent US-licensed gas engineer, estimates our company's proved (1P), proved and probable (2P), and proved, probable and possible (3P) reserves as of 31 March 2012 to be 3.5 billion cubic feet (bcf), 27.7bcf and 205bcf respectively.

The average gas production volume of the existing 80 wells is 500 cubic meter per day per well currently and is expected to increase to 1,300 cubic meter per day per well on average by the end of 2012. The Group expects its overall gas output to exceed 100,000 cubic meter per day by the end of 2012 and 350,000 cubic meter per day by end of 2013.

As the construction of the Group's natural gas pipeline for delivery of gas from the production field to the liquefaction plant is expected to be completed before the end of 2012, the Group will start to generate revenue, profit and cash flow from the gas operation approximately the same time.

Liquefaction operation: As at 31 December 2011, the Group's LNG capacity was 500,000 cubic metre per day. However, due to the tight supply of domestic natural gas within China, the Group experienced difficulty in sourcing natural gas feed for its downstream liquefaction purpose, and therefore, the utilisation of our LNG plants was low and unsatisfactory. However, the Group expects that the above situation will improve after the Group has started its own gas production in the fourth quarter of 2012. Furthermore, the Group suspended the operation of the LNG plant for an overhaul between February 2012 and April 2012, which resulted in the sharp decline in turnover and operating cashflow of our Group. The LNG plant has resumed operation since May 2012. After the major overhaul, the Group expects the LNG plant to become more efficient and cost effective, that will increase the revenue, profit and cashflow contribution to the Group in the second half of 2012 and onwards because of the increase in our gas production supply.

Marketing and sales: In view of the strong demand of liquefied natural gas in central China due to the rising industrial and residential demands, the Group developed the vertical integration structure to supply liquefied natural gas from its LNG plant in Qinshui County, Shanxi Province to its customers in Henan Province through its own distribution channel. The vertical integration structure can reduce risk of gas supply disruption and increase profit margins. The Group can also decide its customer mix in order to maximise the profit margins. The acquisition of the exclusive natural gas operation right in Ruyang County, Henan Province by the Group was in line with its business strategy. The Group was able to secure a long term demand from major users while the Group can optimise the overall sales mix and therefore maximise our profit margin.

However, the Group's operations in Ruyang Industrial Zone have not started during the year mainly due to the delay in the completion of the power supply system in the Ruyang Industrial Zone. On 12 July 2011, through the acquisition of Luoyang Shunhe, the Group completed the acquisition of the downstream gas storage and distribution assets and the exclusive right to supply gas to users in the Ruyang Industrial Zone. Pursuant to the signed agreement on 6 April 2011 between Luoyang Shunhe and Ruyang County Government, all the infrastructure construction including the power supply system of the Ruyang Industrial Zone would be completed by no later than September 2011 and the Group expected to generate revenue from gas sales of the LNG plants in the Ruyang Industrial Zone once operation commenced. However, in early August 2011, the Group was informed by the management company of the Ruyang Industrial Zone that there would be delay in the completion power supply system due to unforeseeable issues on technical and administrative problems. Since the gas operation requires steady power supply to drive the processes (i.e. pressurizing gas, gasification of liquefied gas, etc), the Group's operation in the Ruyang Industrial Zone was paralysed due to the lack of power supply. To avoid any further delay of the operation, the Group held a series of discussion and negotiation with the management company of the Ruyang Industrial Zone. The Group then signed another agreement with the management company on 17 August 2011 to the effect that if Luoyang Shunhe cannot achieve the net profit of RMB30 million for the year ended 31 December 2011 due to the delay in the completion of power supply system, the management company of the Ruyang Industrial Zone will compensate Luoyang Shunhe for the shortfall from RMB 30 million. In February 2012, the Group informed the management company that the shortfall amount after tax was RMB25.5 million (i.e. before tax amount was RMB34.06 million) and demanded the compensation. The compensation amount was accounted for in the financial statement for the year ended 31 December 2011 and fully recovered in March and April 2012.

We have been informed that the power supply system is expected to be completed and starting operating before the end of October 2012, and by then the sales of gas to our customers will be commenced after testing. Moreover, the Group will increase the utilisation of the LNG plant by participating in the regional gas trading market so as to generate more revenue. Nevertheless, this will not be our major business. The trading business only generates a thin margin, but it is one of the measures to minimise the idle capacity and to generate more revenue.

The Group believes that it is not in breach of the obligation under GEM Rule 17.10 because the Group was reasonably confident that the compensation income from the management company of the Ruyang Industrial Zone would be paid up, as stipulated in the aforesaid agreements. Alternatively, if the management failed to satisfy the compensation obligation, Mr. Wang, the vendor of the acquisition in relation to, among other things, Luoyang Shunhe would be required to compensate the Group to make up the profit shortfall of the Warranted Profit of RMB30 million in 2011, which in turn will not materially affect the revenue of the Group. As such, the Directors of the Company consider that the delay in completion of power supply system has not triggered the Company's disclosure obligations under GEM Rule 17.10.

On the other hand, the Group experienced a slower than expected gas demand from the industrial users in Guangxi, mainly ceramic and porcelain producers. The gas volume growth was disappointing over the past few years. The management of the Group conducted a thorough and detailed analysis on the gas demand volume and believed that the demand will pick up moderately in the next few years, due to the poor export volume of ceramic and porcelain products from Guangxi. Therefore, the Board decided to impair the goodwill relating to the CGU of pipeline natural gas operation in Beiliu by RMB21,492,000 for the year ended 31 December 2011.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2011, the Group had net assets of approximately RMB1,081,397,000, including cash and bank balances of approximately RMB21,698,000. To minimise financial risks, the Group implements stringent financial and risk management strategies and avoids the use of highly-geared financing arrangements. The Group's gearing ratio, calculated by the Group's total external borrowings divided by its shareholders' fund, was approximately 6.0%.

Although the Group has no plan in fund raising currently, 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 scale-down of any current business.

Employees

As at 31 December 2011, the Group has an aggregate of 538 employees, of which 87 are research and development staff, 224 are engineering and customer service staff, 194 administrative staff and 33 marketing staff. During the year, the staff costs (including Directors' remuneration and share-based payment) was approximately RMB28,167,000 (2010: approximately RMB21,041,000).

The salary and bonus policy of the Group is principally determined by the performance of the individual employee. The Group will on an ongoing basis, provides opportunity for professional development and training to its employees.

Risk in Foreign Exchange

The revenue and expenses of the Group were denominated in Renminbi. The Directors consider that the Group's risk in foreign exchange is insignificant.

Significant Investment

The Group did not have significant investment as at 31 December 2011.

OUTLOOK

The directors of the Company believes that the Company will sustain long term development and maintain its leading position in China's natural gas market given its vertical integration business structure that reduces, or eliminates risks in gas supply, gas price fluctuation and earning visibility.

In light of a recent publication regarding the 12th Five-Year Plan for the period from 2011 to 2015 of the PRC government, natural gas users in China will increase by 100 million to a total of 250 million. In the national gas market, the Group has observed inadequate gas supply in general that has rendered midstream gas processing companies in the market in an adverse operating environment causing low utilisation and loss.

Unlike most of the above midstream gas processing companies whose business models only focus on certain areas of the gas production or supply chain, the Group has its own gas production in upstream operation which enhance the Group's self-sufficiency in gas supply to the mid-stream LNG plants and downstream gas sales and distribution, and therefore reducing the gas supply risk in the long run. The current situation of inadequate gas feed and thereby loss-making operation is only temporary and the business will turn profitable and show phenomenal growth as the Group's gas production accelerates in the near future.

Furthermore, the Group, with its own gas feedstock, is less affected by gas price fluctuation caused by international natural gas market. Nevertheless, the increasing gas price in the international market would make our gas products and supply more competitive and increase our profit margin given our lower operation cost of our full participation in the natural gas value chain. The Group believes that its revenue and profit will increase in the long run. More importantly, the vertical integration strategy would enable the Group to sustain a long term development and become a strong market leader.

After a series of corporate restructuring, the Group believes that the build-out of the Group's vertical integration structure is almost complete and now it is high time for the Group to move to the second stage - the growing phase. The Group expects to turn the business into profitable in the near future.

On the upstream exploration and production front, the number of wells ready for gas output would increase and the daily production per well would rise as the wells become more mature. The Group expects the daily gas production to exceed 100,000 cubic meter per day by the end of 2012 and 350,000 cubic meter per day by end of 2013. On the other hand, the Group expects the construction of the pipeline transporting gas from its own gas fields to the LNG plants in Qinshui County to complete by the end of 2012; after then the Group can raise its own LNG plants utilisation by feeding more self-produced gas to the LNG plants. More importantly, the utilisation of the downstream LNG transportation trunks and the storage facilities would increase too. As the demand for gas in China remains strong and the Group's supply constraint unleashed, the Group expects the gas sales in the fourth quarter of 2012 and that in 2013 to grow significantly and the profitability to improve materially.

In the near term, the Group will mainly focus on upstream CBM exploration and production on the existing gas CBM assets and may not make any significant investment or acquisition. Meanwhile, the Group will be opportunistic in value-accretive upstream gas asset acquisition, if any.

MATERIAL ACQUISITION AND TRANSACTIONS

Very Substantial Acquisition — Finance Lease Arrangement

On 2 December 2010, (1) Shanxi Qinshui Shuntai Energy Development Company Limited ("Qinshui Energy"), a direct wholly-owned subsidiary of the Company; and (2) Shanxi Wanzhi Logistics Limited ("Shanxi Logistics"), an indirect non-wholly owned subsidiary of the Company, entered into, among other things, the five finance lease agreements respectively with CIMC Vehicle Financial Leasing Company Limited ("CIMC Vehicle"), pursuant to which Qinshui Energy and Shanxi Logistics conditionally agreed to lease from CIMC Vehicle, and CIMC Vehicle conditionally agreed to lease to Qinshui Energy and Shanxi Logistics, certain assets including LNG tanks, gasified system and equipment, LNG trailer, towing vehicles and LNG refill stations respectively for a total lease consideration of RMB95,460,930 for a term of 36 months by monthly installments inclusive of interest determined based on the prevailing lending interest rate promulgated by the People's Bank of China (the "Finance Lease Arrangement"). However, the total lease consideration would be adjusted due to the floating lending interest rate to be promulgated by the People's Bank of China from time to time.

The Finance Lease Arrangement constituted a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and therefore was subject to reporting, announcement and shareholders' approval requirements. The Finance Lease Arrangement was approved by the Company's shareholders at the extraordinary general meeting held on 14 February 2011. For details, please refer to the announcements of the Company dated 7 December 2010 and 12 January 2011 respectively, and the circular of the Company dated 24 January 2011.

Discloseable Transaction — Acquisition of Coalbed Liquefying Facilities

On 16 February 2011, Qinshui Energy entered into a contract with Liaoning Harbin Shenleng Gas Liquefying Equipment Company Limited (遼寧哈深冷氣體液化設備有限公司), in relation to the acquisition of the coalbed liquefying facilities with a production capacity of 25 x 10^4 Sm^3/day to be located at the construction site of coalbed liquefying project, Qinshui County, Jincheng City, Shanxi Province, PRC (中國山西省晉城市沁水縣煤層氣液化項目工地) at an anticipated total consideration of RMB56,600,000. The acquisition constituted a discloseable transaction of the Company. For details, please refer to the announcement of the Company dated 16 February 2011.

Major and Connected Transaction Involving Issue of Convertible Bonds

On 6 April 2011, the Company (as purchaser) entered into an acquisition agreement (as supplemented by a supplemental agreement dated 25 May 2011) with Mr. Wang, an executive Director and substantial shareholder of the Company, (as vendor) ("the Acquisition Agreement") pursuant to which the Company conditionally agreed to acquire and Mr. Wang conditionally agreed to sell the 100% issued share capital of Wealthy Talent Global Investments Limited for a consideration of HK$499,000,000 (equivalent to approximately RMB420 million) (the "Acquisition"). The consideration was satisfied upon completion by the Company by the issue of the convertible bonds to Mr. Wang or its nominee(s) which shall be a company controlled by him. Based on the conversion price at HK$0.26 per share and assuming full conversion, 1,919,230,769 conversion shares will be allotted and issued. The Acquisition Agreement constituted a major and connected transaction of the Company. For details, please refer to the announcement and the circular of the Company dated 6 April 2011 and 30 May 2011 respectively.

The Acquisition Agreement was approved by the shareholders of the Company on 20 June 2011. The Acquisition was completed on 12 July 2011. As at the date of this announcement, 800,000,000 conversion share has been issued and allotted to Mr. Wang.

Pursuant to the Acquisition Agreements, Mr. Wang has warranted to the Company that, subject to the terms of the Acquisition Agreements, the adjusted consolidated net profit after tax and excluding the amortisation of intangible assets of the Wealthy Talent Group (the "Net Profit") for the financial years ended 31 December 2011 and 2012 shall not be less than RMB30,000,000 and RMB40,000,000 respectively (the "Warranted Profit"). In the event that the actual Net Profit is less than the Warranted Profit (the "Shortfall") for the financial year ending 31 December 2011, Mr. Wang shall pay to the Company a total sum of 14 times of the Shortfall after the determination of the actual Net Profit for the year ending 31 December 2011. In the event that the actual Net Profit is less than the Warranted Profit for the financial year ending 31 December 2012, Mr. Wang shall pay to the Company a total sum of 10.5 times of the Shortfall after the determination of the actual Net Profit for the year ending 31 December 2012. The payment will be satisfied by means of cancellation of outstanding 2011 Convertible Bonds held by Mr. Wang. If the principal value of the Convertible Bonds held by Mr. Wang is less than the amount payable, the payment shall be made in cash.

The independent non-executive Directors, having reviewed the consolidated financial statements of the Wealthy Talent Group for the year ended 31 December 2011 and relevant agreements on compensation income, are of the opinion that Mr. Wang has fulfilled his obligations in relation to the Warranted Profit in respect of the year ended 31 December 2011.

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

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Name	Capacity	Nature of Interest	Number of ordinary shares/ underlying shares	Approximate % of shareholdings
Mr. Wang	Interest of controlled corporation	Corporate interest	120,790,000 *(Note 1)*	3.06%
Mr. Wang	Beneficial owner	Personal	2,102,512,887 *(Note 2)*	53.33%
Mr. Zhang Qing Lin	Beneficial Owner	Personal	2,500,000 *(Note 3)*	0.06%
Mr. Feng San Li	Beneficial Owner	Personal	2,500,000 *(Note 4)*	0.06%
Mr. Fu Shou Gang	Beneficial Owner	Personal	2,500,000 *(Note 5)*	0.06%

Notes:

1. Such shares are owned by Jumbo Lane Investments Limited.

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

2. Out of the 2,102,512,887 long positions, Mr. Wang is interested as (i) a grantee of options to subscribe for 2,500,000 shares under the share option scheme adopted by the Company on 18 May 2011; (ii) a holder of convertible bonds convertible to 1,119,230,769 conversion shares; and (iii) a beneficial owner of 980,782,118 issued shares of the Company.

3. Mr. Zhang Qing Lin is interested as a grantee of options to subscribe for 2,500,000 shares under the share option scheme adopted by the Company on 18 May 2011 and became effective from 30 May 2011.

4. Mr. Feng San Li is interested as a grantee of options to subscribe for 2,500,000 shares under the share option scheme adopted by the Company on 18 May 2011 and became effective from 30 May 2011.

5. Mr. Fu Shou Gang is interested as a grantee of options to subscribe for 2,500,000 shares under the share option scheme adopted by the Company on 18 May 2011 and became effective from 30 May 2011.

(b) Associated corporations — interests in shares

Director	Name of associated corporation	Nature of Interest	Percentage of interests in the registered capital of the associated corporation
Mr. Wang	Jumbo Lane Investments Limited *(Note 1)*	Personal	100%

Note:

1. Jumbo Lane Investments Limited is a holding Company of the Group, owns 3.06% of the shareholding of the Group. Mr. Wang owns 100% interest in the issued share capital of Jumbo Lane Investments Limited.

Save as disclosed above, as at 31 December 2011, 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 period.

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

As at 31 December 2011, 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

Name	Number of Shares	Nature of Interest	Percentage of shareholding
Mr. Wang *(Note 1)*	120,790,000	Interest of controlled corporation	3.06%
Mr. Wang *(Note 2)*	2,102,512,887	Personal	53.33%
Ms. Zhao Xin *(Note 3)*	120,790,000	Interest of spouse	3.06%
Ms. Zhao Xin *(Note 4)*	2,102,512,887	Interest of spouse	53.33%
Edmond de Rothschild Asset Management Hong Kong Limited *(Note 5)*	198,690,000	Investment Manager	5.04%
Edmond de Rothschild Asset Management *(Note 6)*	198,690,000	Investment Manager	5.04%

Notes:

1. Such shares represent the same parcel of shares owned by Jumbo Lane Investments Limited. Mr. Wang is the beneficial owner of the 100% of the total issued share capital of Jumbo Lane Investments Limited. Mr. Wang is taken to be interested in the shares owned by Jumbo Lane Investments Limited pursuant to the SFO.

2. Out of the 2,102,512,887 long positions, Mr. Wang is interested as (i) a grantee of options to subscribe for 2,500,000 shares under the share option scheme adopted by the Company on 18 May 2011 and became effective from 30 May 2011; (ii) a holder of convertible bonds convertible to 1,119,230,769 conversion shares; and (iii) a beneficial owner of 980,782,118 issued shares of the Company.

3. Ms. Zhao Xin (the spouse of Mr. Wang) is deemed to be interested in her spouse's interest in the Company which represent the same parcel of shares held by Jumbo Lane Investments Limited pursuant to the SFO.

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

5. Such shares in long position were held in the capacity as investment manager.

6. Edmond de Rothschild Asset Management is deemed to be interested in 198,690,000 shares through its controlling corporation Edmond de Rothschild Asset Management Hong Kong Limited.

Save as disclosed above, as at 31 December 2011 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 year 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 became effective on 30 May 2011. The New Share Option Scheme will remain in force for a period of 10 years from adoption of the New Share Option Scheme and will expire on 17 May 2021. On 30 May 2011, the Board approved to grant options in respect of 258,300,000 ordinary shares to the Company's Directors, employees and consultants under the New Share Option Scheme.

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

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

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

Name and category of participants	As at 1 January 2011	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 31 December 2011	Date of grant of share options	Exercise period of share options	Exercise price per share option	Share price of the Company as at the date of grant of share options
Executive Directors									
Mr. Wang Zhong Sheng	—	2,500,000	—	—	2,500,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Mr. Zhang Qing Lin	—	2,500,000	—	—	2,500,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Mr. Fu Shou Gang	—	2,500,000	—	—	2,500,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Mr. Feng San Li	—	2,500,000	—	—	2,500,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
	—	10,000,000	—	—	10,000,000				
Employees	—	48,280,000	—	(4,590,000)	43,690,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
Consultants	—	200,020,000	—	—	200,020,000	30/5/2011	30/5/2011-29/5/2021	0.495	0.495
	—	258,300,000	—	(4,590,000)	253,710,000				

Notes:

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

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

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

	Weighted average exercise price *HK$*	Number of options
Outstanding as at 1 January 2011	—	—
Granted during the period	0.495	258,300,000
Outstanding as at 31 December 2011	0.495	253,710,000
Exercisable as at 31 December 2011	0.495	215,220,000

The options outstanding as at 31 December 2011 had an exercise price of HK$0.495 and a weighted average remaining contractual life of 9.4 years.

CONTINUING CONNECTED TRANSACTION — SUPPLY OF LIQUEFIED NATURAL GAS

During the period from 1 January 2011 to 31 March 2011 (the "Period"), Qinshui Energy, a wholly-owned subsidiary of the Company, supplied liquefied natural gas to Luoyang Shunhe Energy Company Limited ("Luoyang Shunhe"), a connected person of the Company, in the aggregate amount of not more than RMB12 million (the "Transaction").

During the Period, Luoyang Shunhe was wholly-owned by Mr. Wang, an executive Director and a substantial shareholder. Therefore, Luoyang Shunhe was a connected person of the Company pursuant to Rule 20.11 of the GEM Listing Rules. According to Rule 20.14 of the GEM Listing Rules, the supply of liquefied natural gas to Luoyang Shunhe during the Period constituted a continuing connected transaction of the Company.

As each of the percentage ratios (other than the profits ratio) for the Transaction is more than 0.1% but less than 5%, the Transaction was subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. On 28 March 2011, the Directors had noted the omission to comply with the reporting and announcement requirement of the GEM Listing Rules in respect of the Transaction, however, the non-compliance had been rectified accordingly. For details, please refer to the announcement of the Company dated 31 March 2011.

THE PLACING

The Company and the placing agent, Vision Finance International Company Limited (the "Placing Agent") entered into the placing agreement on 26 February 2011, whereby the Company conditionally agreed to place, through the Placing Agent, on a best efforts basis, a maximum of 326,830,000 shares ("Placing Shares") to independent investors at a price of HK$0.225 per share (the "Placing").

The Placing Shares represent (i) approximately 14.48% of the then issued share capital of the Company of 2,256,675,023 shares; and (ii) approximately 12.65% of the Company's issued share capital of 2,583,505,023 shares as enlarged by completion of the Placing.

The Placing was completed on 17 March 2011. The net proceeds from the Placing of approximately HK$71.21 million has been and will be used for the existing joint venture investment and general working capital of the Group. For details of the Placing, please refer to the announcements of the Company dated 26 February 2011 and 17 March 2011 respectively.

THE PLACING AND TOP-UP SUBSCRIPTION

On 4 August 2011, Mr. Wang and Jumbo Lane Investments Limited ("Jumbo Lane") entered into a placing agreement which was subsequently supplemented by a supplemental agreement dated 5 August 2011 ("the Placing Agreement") with Kingsway Financial Services Group Limited and Vision Finance International Company Limited (collectively the "Placing Agents"), both as placing agents. On the same date, the Company, Mr. Wang and Jumbo Lane entered into a top-up subscription agreement which was subsequently supplemented by a supplemental agreement dated 5 August 2011 (the "Subscription Agreement"). Mr. Wang is an executive Director, and both Mr. Wang and Jumbo Lane were substantial shareholders of the Company at the time of entering of and completion of the Placing Agreement and the Subscription Agreement.

Pursuant to the Placing Agreement and the Subscription Agreement, the Placing Agents agreed to place, on behalf of Mr. Wang and Jumbo Lane and on a best effort basis, an aggregate of up to 400,000,000 existing shares (of which 200,000,000 shares were from Jumbo Lane and 200,000,000 shares were from Mr. Wang) at the placing price of HK$0.60 per placing share; and Mr. Wang and Jumbo Lane respectively and conditionally agreed to subscribe for, and the Company conditionally agreed to issue and allot, an aggregate of up to 400,000,000 new shares at the subscription price of HK$0.60 per subscription share (altogether the "Placing and the Subscription"). The Placing and the Subscription were completed on 10 August 2011 and 17 August 2011 respectively. An aggregate of 244,000,000 shares were successfully placed by Mr. Wang and Jumbo Lane at the Placing Price of HK$0.60 per share and an aggregate of 244,000,000 shares were issued and alloted by the Company to Mr. Wang and Jumbo Lane at the subscription price of HK$0.6 per share. For details of the Placing and Subscription, please refer to the announcements of the Company dated 5 August 2011 and 17 August 2011 respectively.

CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS

As of 31 December 2011, the Company had outstanding convertible bonds convertible to 1,119,230,769 conversion shares and outstanding options to subscribe for 253,710,000 shares under the share option scheme adopted on 18 May 2011 and became effective from 30 May 2011. Details are disclosed in page 25 of this announcement.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands, 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

On 17 March 2011, the Company allotted and issued 326,830,000 ordinary shares of HK$0.01 each by way of a placement at HK$0.225 per share for cash. For details, please refer to the announcements of the Company dated 26 February 2011 and 17 March 2011 respectively.

On 17 August 2011, the Company allotted and issued 244,000,000 ordinary shares of HK$0.01 under a top-up subscription at HK$0.60 per share for cash. For details, please refer to the announcements of the Company dated 5 August 2011 and 17 August 2011.

Save as disclosed above, during the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company nor any of its subsidiaries.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business as of the Group.

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Feng San Li was appointed as the executive Director and the chief executive officer of the Company with effect from 17 June 2011.

CHANGE OF THE COMPANY'S NAME

The Board announced on 11 July 2011 that it proposed to change the English name of the Company from "China Leason Investment Group Co., Limited" to "China Leason CBM & Shale Gas Group Company Limited" and the Chinese name of the Company from "中國聯盛投資集團有限公司" to "中國聯盛煤層氣頁岩氣產業集團有限公司".

The special resolution for the change of Company name was passed by the shareholders of the Company at the extraordinary general meeting held on 17 October 2011. The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in Cayman Island on 20 October 2011 and the change of the English and Chinese names of the Company has become effective from 20 October 2011.

POST BALANCE SHEET EVENT

The Board announced on 28 February 2012 that the Company entered into a Framework Agreement (the "Cooperating Agreement") co-operate with Longmen Hui Cheng Investment Limited (龍門匯成投資有限公司) ("Longmen Hui Cheng") to-a privately-owned company of the renowned Kadoorie Family in Hong Kong. By leveraging on our years of experience of exploitation, liquefaction and marketing of coalbed methane gas together with the substantial capital strength and plentiful coalbed methane gas resources in Hancheng, Shaanxi Province, PRC, of Longmen Hui Cheng, we hope to form a vertically integrated alliance to cover all the upstream, midstream and downstream areas in the coalbed methane gas value chain which would be beneficial to both parties. Both parties have agreed that a joint working group will be formed immediately following the signing of the agreement to push forward the subsequent signing of a formal agreement.

As at the date of this announcement, no binding agreement in relation to the cooperation project under the Cooperation Agreement has been entered into and the said cooperation project may or may not proceed. For details, please refer to the announcement of the Company dated 29 February 2012.

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

During the year 2011, the audit committee has held four meetings. The Group's result for the year 2011 have been reviewed and commented by the audit committee members.

In order to maintain a high quality of Corporate Governance, the Group has employed a Qualified Accountant in current year and will still employ a Qualified Accountant in the coming years. The Audit Committee also concluded that the Group has employed sufficient staff for the purpose of accounting, financial and internal control.

CORPORATE GOVERNANCE

During the year 2011, the Group has complied with the code provisions in the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules ("HKSE Code").

Under the Code Provision A.2.1 of the HKSE Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Feng San Li is holding the title of chief executive officer. Mr. Wang is the Chairman of the Board. The Board meets regularly to consider major matters affecting the business and operations of the Group. The Board considers that this structure will balance the power and authority between the Board and management and believes that this structure enables the Group to make and implement decision promptly and efficiently.

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 Non-executive Directors and 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 Articles of Association. The Board considers the current arrangement will allow flexibility to the Board in terms of appointment of Directors.

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 Review 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.

RESUMPTION OF TRADING

At the request of the Company, trading in shares of the Company (the "Shares") on the Stock Exchange has been suspended since 9:00 a.m. on 30 March 2012 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 4 October 2012.

By order of the Board
China Leason CBM & Shale Gas Group Company Limited
(formerly known as China Leason Investment Group Co., Limited)
Wang Zhong Sheng
Chairman

China, 3 October 2012

As at the date hereof, the executive Directors are Mr. Wang Zhong Sheng, Mr. Shi Liang, Mr. Zhang Qing Lin, Mr. Fu Shou Gang and Mr. Feng San Li and the independent non-executive Directors are Mr. Luo Wei Kun and Ms. Pang Yuk Fong and Mr. Wang Zhi He.