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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8270)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

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 2012, the Group's turnover amounted to approximately RMB183,834,000, representing a decrease of 27.6% over that of the previous year.

- For the year ended 31 December 2012, the Group's loss for the year amounted to approximately RMB61,462,000, whereas there was a loss of approximately RMB49,335,000 for previous year.

- The Group's loss per share was RMB1.40 cents (2011: RMB1.53 cents).

- The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2012.

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 2012 together with the comparative figures for the last financial year as follows:

Consolidated Income Statement
For the year ended 31 December 2012

	Notes	**2012** **RMB'000**	2011 *RMB'000*
Turnover	*3*	**183,834**	253,849
Cost of sales		**(212,295)**	(239,678)
Gross (loss)/profit		**(28,461)**	14,171
Other income and gains	*3*	**55,661**	36,115
Distribution costs		**(2,003)**	(1,733)
Administrative expenses		**(47,249)**	(59,329)
Other operating expenses		**(4,861)**	(4,260)
Finance costs	*5(c)*	**(7,214)**	(8,762)
Fair value (loss)/gain on other financial assets		**(17,051)**	17,051
Fair value loss on the derivative component of convertible bonds		**—**	(6,487)
Impairment loss on goodwill		**(2,339)**	(21,492)
Loss before taxation	*5*	**(53,517)**	(34,726)
Income tax	*6*	**(7,945)**	(14,609)
Loss for the year		**(61,462)**	(49,335)
Attributable to:			
Equity shareholders of the Company		**(55,130)**	(45,016)
Non-controlling interests		**(6,332)**	(4,319)
		(61,462)	(49,335)
		RMB	*RMB*
Loss per share	*7*		
— Basic		**(1.40) cents**	(1.53) cents
— Diluted		**(1.40) cents**	(1.53) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
Loss for the year	**(61,462)**	(49,335)
Other comprehensive (expense)/income for the year		
Exchange differences on translation of financial statements of foreign subsidiaries	**(22)**	2,231
Total comprehensive expense for the year	**(61,484)**	(47,104)
Total comprehensive expense attributable to:		
Equity shareholders of the Company	**(55,152)**	(42,785)
Non-controlling interests	**(6,332)**	(4,319)
	(61,484)	(47,104)

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current assets			
Goodwill	8	**267,298**	269,637
Property, plant and equipment		**601,503**	481,040
Prepaid lease payments for land under operating leases		**34,309**	35,119
Intangible assets	9	**365,231**	395,474
Deposits and prepayments		**53,485**	33,682
Deferred tax assets		**152**	189
		1,321,978	1,215,141
Current assets			
Prepaid lease payments for land under operating leases		**810**	810
Financial assets at fair value through profit or loss		**200**	200
Other financial assets		**—**	17,051
Inventories		**5,949**	2,597
Trade and other receivables	10	**187,387**	138,758
Tax recoverable		**—**	687
Cash and cash equivalents		**29,437**	21,698
		223,783	181,801
Current liabilities			
Trade and other payables	11	**280,191**	127,400
Bank and other borrowings due within one year		**110,600**	62,900
Obligations under finance leases		**4,747**	3,420
Provision		**2,507**	—
Tax payable		**22,253**	13,556
		420,298	207,276
Net current liabilities		**(196,515)**	(25,475)
Total assets less current liabilities		**1,125,463**	1,189,666
Non-current liabilities			
Bank borrowings		**5,400**	—
Obligations under finance leases		**1,405**	4,256
Deferred tax liabilities		**95,955**	104,013
		102,760	108,269
Net assets		**1,022,703**	1,081,397
Capital and reserves			
Share capital		**34,828**	34,828
Reserves		**965,232**	1,017,594
Equity attributable to equity shareholders of the Company		**1,000,060**	1,052,422
Non-controlling interests		**22,643**	28,975
Total equity		**1,022,703**	1,081,397

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Company										
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Contributed surplus** *RMB'000*	**General reserve** *RMB'000*	**Translation reserve** *RMB'000*	**Share option reserve** *RMB'000*	**Convertible bonds reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 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 and 1 January 2012	34,828	878,366	—	1,523	1,528	28,376	241,209	(133,408)	1,052,422	28,975	1,081,397
Loss for the year	—	—	—	—	—	—	—	(55,130)	(55,130)	(6,332)	(61,462)
Other comprehensive expense for the year	—	—	—	—	(22)	—	—	—	(22)	—	(22)
Total comprehensive expense for the year	—	—	—	—	(22)	—	—	(55,130)	(55,152)	(6,332)	(61,484)
Equity-settled share-based payments	—	—	—	—	—	2,790	—	—	2,790	—	2,790
Lapse of share options	—	—	—	—	—	(403)	—	403	—	—	—
Transfer to general reserve	—	—	—	889	—	—	—	(889)	—	—	—
Balance at 31 December 2012	**34,828**	**878,366**	**—**	**2,412**	**1,506**	**30,763**	**241,209**	**(189,024)**	**1,000,060**	**22,643**	**1,022,703**

Notes:

1. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENT

(a) Statement of compliance

These consolidated 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 consolidated financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from 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 consolidated financial statements.

(b) Going concern

The Group incurred a net loss of approximately RMB61,462,000 during the year ended 31 December 2012 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB196,515,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about 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 of the Company had adopted the going concern basis in the preparation of the consolidated financial statements of the Group based on the following factors:

(1) Other borrowings of RMB80,000,000 were due for repayment within 12 months in accordance with the loan agreements entered into between the Group and non-controlling shareholders of subsidiaries of the Company. However, prior to the date of approval of these consolidated financial statements, these borrowings had been rolled over for a further 12 months and will be due for repayment after 31 December 2013. Up to the date of approval of these consolidated financial statements, the non-controlling shareholders of subsidiaries of the Company have not indicated their 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 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;

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

(4) Subsequent to the end of the reporting period, the Company and a placing agent entered into a placing agreement on 14 March 2013, whereby the Company has conditionally agreed to place through the placing agent on a best effort basis, a maximum of 400,000,000 placing shares to independent investors at a price of HK$0.25 per placing share. The maximum net proceeds from the placing amounted to approximately HK$96.4 million; and

(5) The Company is exploring other sources of funding including finance lease arrangement of approximately RMB95 million as announced by the Company on 21 May 2012.

Provided that these measures can successfully improve the liquidity of the Company, 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 consolidated 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 consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

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

Amendments to HKFRS 1	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
Amendments to HKFRS 7	*Disclosures — Transfers of Financial Assets*
Amendments to HKAS 12	*Deferred Tax: Recovery of Underlying Assets*

The adoption of the amendments to HKFRSs has no material effect on the Group's consolidated financial statements.

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new and revised standards and interpretation which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these consolidated financial statements.

Amendments to HKFRSs	*Annual Improvements to HKFRSs 2009 — 2011 cycle*[2]
Amendments to HKFRS 1	*Government Loans*[2]
Amendments to HKFRS 7	*Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
Amendments to HKFRS 9 and HKFRS 7	*Mandatory Effective Date of HKFRS 9 and Transition Disclosures*[4]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance*[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	*Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
Amendments to HKAS 1	*Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (as revised in 2011)	*Employee Benefits*[2]
HKAS 27 (as revised in 2011)	*Separate Financial Statements*[2]
HKAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[2]
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*[3]
HK (IFRIC) — Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] 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 results of operations and financial position.

3. TURNOVER AND OTHER INCOME AND GAINS

Turnover

Turnover represents the sales value of goods supplied and services provided to customers, which excludes value-added and business taxes and trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012	2011
	RMB'000	*RMB'000*
Sales of liquefied coalbed gas	**131,843**	212,067
Provision of liquefied coalbed gas logistics services	**13,470**	13,790
Sales of piped natural gas		
(including provision of gas supply connection services)	**38,521**	27,992
	183,834	253,849

Other income and gains

	2012	2011
	RMB'000	*RMB'000*
Interest income from bank deposits	**44**	102
Other interest income	**—**	861
Net foreign exchange gain	**79**	—
Rental income	**3,830**	—
Government grants		
— PRC Enterprise Income Tax refund	**821**	930
Other income *(note)*	**50,887**	34,222
	55,661	36,115

Note:

Included in other income for the year ended 31 December 2012 was a compensation income of approximately RMB50,750,000 (2011: 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. The CODM 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 exploitation, liquefaction production and sale of natural gas in the People's Republic of China ("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 CODM assess the performance of the sole operating segment identified based on the consistent information as disclosed in the consolidated 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*	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hong Kong	**—**	—	**170**	449
PRC	**183,834**	253,849	**1,321,656**	1,214,503
	183,834	253,849	**1,321,826**	1,214,952

* *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:

	2012	2011
	RMB'000	*RMB'000*
Customer A	**N/A**[1]	35,371
Customer B	**20,176**	N/A[1]
Customer C	**N/A**[1]	32,042
Customer D	**24,237**	28,838
	44,413	96,251

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:

		2012 *RMB'000*	2011 *RMB'000*
(a)	**Staff costs (including directors' and chief executive's emoluments)**		
	Salaries, wages and other benefits	**20,087**	16,800
	Retirement benefit scheme contributions	**2,838**	2,174
	Equity-settled share-based payment expenses	**1,909**	9,193
	Total staff costs	**24,834**	28,167
(b)	**Other items**		
	Cost of inventories	**95,734**	139,330
	Auditors' remuneration		
	— audit services	**1,466**	663
	— other services	**—**	332
	Depreciation of property, plant and equipment	**29,165**	24,590
	Equity-settled share-based payment expenses in respect of share options granted to consultants	**105**	9,550
	Amortisation of prepaid lease payments for land under operating leases	**810**	738
	Amortisation of intangible assets (included in cost of sales)	**30,243**	25,369
	Impairment loss on trade and other receivables (included in other operating expenses)	**2,992**	1,000
	Net foreign exchange loss	**—**	544
	Net loss on disposal of property, plant and equipment (included in other operating expenses)	**35**	1,338
	Operating lease charges in respect of land and buildings	**898**	1,368
(c)	**Finance costs**		
	Interest expenses on bank and other borrowings wholly repayable within five years	**6,113**	5,344
	Other finance cost	**155**	—
	Effective interest expense on convertible bonds	**—**	2,289
	Finance charges on obligations under finance leases	**946**	1,129
	Total interest expense on financial liabilities not at fair value through profit or loss	**7,214**	8,762

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax ("EIT")		
Provision for the year	**15,283**	16,429
Under-provision in respect of prior years	**683**	631
	15,966	17,060
Deferred tax		
Origination and reversal of temporary differences	**(8,021)**	(2,451)
	7,945	14,609

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 2012 (2011: 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 2012 (2011: 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.

During the year ended 31 December 2011, a PRC subsidiary, 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 was 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, January 2011 to December 2013 and from January 2014 onwards respectively. During the year ended 31 December 2012, Hebei Shuntai is entitled to a new preferential EIT refund treatment, the refund is equal to 20% of the EIT paid to the PRC State Bureau of Taxation for the period from January 2011 to December 2013.

7. LOSS PER SHARE

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

	2012	2011
	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	**(55,130)**	(45,016)

	2012	2011
	'000	*'000*
Number of shares		
Issued ordinary shares at 1 January	**3,942,505**	2,256,675
Effect of issue of shares by share placement	**—**	351,257
Effect of conversion of convertible bonds	**—**	341,712
Weighted average number of ordinary shares at 31 December for the purposes of basic and diluted loss per share	**3,942,505**	2,949,644

Diluted loss per share attributable to equity shareholders of the Company for the years ended 31 December 2012 and 2011 is the same as the basic loss per share as the effect of dilutive potential ordinary shares from share options and convertible bonds are anti-dilutive.

8. GOODWILL

	RMB'000
Cost:	
At 1 January 2011	186,279
Acquisition of subsidiaries	157,821
At 31 December 2011 and 2012	344,100
Accumulated impairment losses:	
At 1 January 2011	52,971
Impairment loss	21,492
At 31 December 2011 and 1 January 2012	74,463
Impairment loss	2,339
At 31 December 2012	76,802
Carrying amount:	
At 31 December 2012	**267,298**
At 31 December 2011	269,637

9. INTANGIBLE ASSETS

	Exclusive right for piped natural gas operation *RMB'000*	Operating license for liquefied coalbed gas logistics *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2011	70,470	97,300	167,770
Acquisition of subsidiaries	264,341	—	264,341
At 31 December 2011 and 2012	334,811	97,300	432,111
Accumulated amortisation and impairment			
At 1 January 2011	2,349	8,919	11,268
Amortisation for the year	5,909	19,460	25,369
At 31 December 2011 and 1 January 2012	8,258	28,379	36,637
Amortisation for the year	10,783	19,460	30,243
At 31 December 2012	19,041	47,839	66,880
Carrying amount			
At 31 December 2012	**315,770**	**49,461**	**365,231**
At 31 December 2011	326,553	68,921	395,474

10. TRADE AND OTHER RECEIVABLES

	2012 *RMB'000*	2011 *RMB'000*
Trade and bills receivables	**14,918**	23,109
Less: Allowance for doubtful debts	**(1,913)**	—
	13,005	23,109
Amounts due from directors	**945**	568
Amounts due from related companies	**16,247**	13,468
Other receivables	**61,325**	52,574
Loans and receivables	**91,522**	89,719
Advances to suppliers	**1,163**	2,591
Prepayment relating to construction expenses	**71,068**	22,041
Other prepayments	**20,166**	22,659
Other taxes recoverable	**3,468**	1,748
	187,387	138,758

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

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**5,587**	20,718
More than 1 month but less than 3 months	**4,408**	—
More than 3 months but less than 6 months	**2,986**	2,340
More than 6 months but less than 12 months	**—**	1
More than 12 months	**24**	50
	13,005	23,109

The Group generally allows credit period of 30 to 180 days to its customers. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon the customers' requests.

11. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**76,621**	50,962
Amounts due to directors	**514**	7,852
Amounts due to non-controlling shareholders of subsidiaries	**1,979**	1,569
Accrued expenses and other payables	**55,753**	5,501
Payables for acquisition of property, plant and equipment	**131,372**	50,250
Financial liabilities measured at amortised cost	**266,239**	116,134
Deposits received from customers	**12,531**	9,249
Other taxes payables	**1,421**	2,017
	280,191	127,400

The ageing analysis of the trade payables based on invoice date at the end of the reporting period is as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**19,306**	5,102
More than 1 month but less than 3 months	**958**	5,556
More than 3 months but less than 6 months	**15,989**	17,628
More than 6 months but less than 12 months	**12,946**	22,440
More than 12 months	**27,422**	236
	76,621	50,962

12. DIVIDEND

No dividend has been proposed or declared by the Directors for the year ended 31 December 2012 (2011: Nil).

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT

An extract of the Company's independent auditors' report for the year ended 31 December 2012 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 RMB61,462,000 during the year ended 31 December 2012 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB196,515,000. 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*

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group recorded a consolidated turnover of approximately RMB183,834,000 for the year, representing a decrease of approximately 27.6% as compared with last year. The decrease was mainly attributable to:

(i) approximately RMB80,224,000 decline in sales of liquefied coalbed gas in China. The decline in sales was attributable to: firstly, the LNG plants being shut down for equipment maintenance from February 2012 to April 2012; secondly, decrease in liquefied gas production and insufficient LNG supplied to the market due to default of China United Coalbed's suppliers and their suspension of supply of piped coalbed gas; thirdly, significant decrease in sales of trading liquefied coalbed gas during the year due to unstable prices in the LNG market in 2012.

The Group recorded a gross loss of approximately RMB28,461,000 for the year, mainly attributable to:

(i) the LNG plants being shut down for equipment maintenance and the supplier suspend the supply of piped coalbed gas, resulting in increase in production costs as a result of the production capability of LNG plants not being fully utilized;

(ii) significant decline in turnover due to the significant decrease in sales of trading liquefied coalbed gas during the year.

The Group recorded a loss for the year attributable to equity shareholders of the Company for approximately RMB55,130,000, compared with the loss attributable to equity shareholders of approximately RMB45,016,000 for last year. The reasons for the loss are as follows:

(i) the decrease in gross profit from main business of RMB42,632,000 as a result of lower market price of LNG compared to 2011 and the increase in production costs of our plants as well as significant decline in turnover due to the significant decrease in sales of trading liquefied coalbed gas during the year;

(ii) the loss of approximately RMB2,339,000 arising from impairment on goodwill of our piped natural gas operation as a result of the difficult operating environment that has continued since 2010 in Guangxi Province, PRC;

(iii) increase in the compensation income (included in other income) of approximately RMB16,690,000 to compensate for the delay in completion of power supply system in the industrial zone located in Ruyang County; and

(iv) the decline in fair value of other financial assets of approximately RMB17,051,000. Successful achievement of the Warranted Profit of RMB40 million for the year of 2012 by Luoyang Shunhe resulted in fair value loss on the Group's other financial assets.

The balance of the Group's trade and other payables increased significantly by approximately RMB152,791,000. This was mainly attributable to, the Group's focus on natural gas exploration and extraction business in 2012, which needed ground work, drilling and pipeline placement for CBM wells. These projects are now under construction without delivery, inspection and settlement, resulting in significant increase in property, plant and equipment payables.

Natural gas exploration and extraction:

As at 31 December 2012, the Group already completed the ground work and drilling of 220 CBM wells, of which 85 wells were ready for immediate gas output. The number of wells drilled was slightly below our previous expectation due to geological and technical difficulties. However, the Group has already solved such geological and technical issues and the Board expects to accelerate the drilling program in 2013. The Group expects to complete the ground work and drilling of 320 CBM wells by the end of 2013 and 500 CBM wells by the end of 2014.

The average gas production volume of the existing 85 wells is 800 cubic meter per day per well currently and is expected to increase to 1,500 cubic meter per day per well on average by the end of 2013. The Group expects its overall gas output to exceed 300,000 cubic meter per day by the end of 2013 and 500,000 cubic meter per day by end of 2014.

As the construction of the Group's natural gas pipeline for delivery of gas from the production field to the liquefaction plant has been essentially completed in 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 2012, 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 enough natural gas feed for its downstream liquefaction purpose, and therefore, the utilisation of our LNG plants was low and unsatisfactory. However, the above situation has been improved 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 2013 because of the increase in our self-produced 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 surrounding areas through its own distribution pipes. 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. In 2013, the Group will actively expand the natural gas consumption market by making the most of its exclusive natural gas operation right in Ruyang County, Henan Province and in Beiliu City, Guangxi Province. Meanwhile, through the project of building gas stations along the mature transportation routes within China and the market development and maintenance of end users, the Group is 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 Review Period mainly due to the delay in the completion of the power supply system in the Ruyang Industrial Zone which was newly constructed. The management company of the Ruyang Industrial Zone explained that the delay in completion of the power supply system was due to some unforeseeable technical and administrative difficulties, and agreed to pay the Group a compensation income for all the losses incurred due to the delay. After a series of discussion and negotiation with the management company of the Industrial Zone, the Group was granted a before tax compensation income of approximately RMB34,000,000 in 2011.

Having said that, we were informed by the management company of the Ruyang Industrial Zone that the power supply system has been completed and started to supply power on 29 October 2012. And we started the gas sales to our customers on December 2012. Moreover, the Group will increase the utilization of the LNG plant by participating in the regional gas trading market to generate more revenue. Nevertheless, the profit margin of the gas trading business will be lower than that of the piped natural gas business.

The Board have been informed that the power supply system is expected to be completed and starting operating before the beginning of 2013, 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.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2012, the Group had net assets of approximately RMB1,022,703,000, including cash and bank balances of approximately RMB29,437,000. 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 11%.

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 2012, the Group has an aggregate of 533 employees, of which 88 are research and development staff, 221 are engineering and customer service staff, 192 administrative staff and 32 marketing staff. During the year, the staff costs (including Directors' remuneration and equity-settled share-based payment expenses) was approximately RMB24,834,000 (2011: approximately RMB28,167,000).

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

Significant Investment

The Group did not have significant investment as at 31 December 2012.

OUTLOOK

The Board 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 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. Viewing from 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 supply and the consequent loss arising from operation are only temporary and it is likely that 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 supply, 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 volume to be over 300,000 cubic meter per day by the end of 2013 and 500,000 cubic meter per day by end of 2014. On the other hand, the construction of the pipeline transporting gas from the Group's own gas fields to the LNG plants in Qinshui County has been essentially completed 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 2013 to grow significantly and the profitability to improve materially.

In the near future, the Group will mainly focus on upstream CBM exploration and production on the existing gas CBM assets. Meanwhile, the Group will be opportunistic in value-accretive upstream gas asset acquisition, if any.

MAJOR TRANSACTIONS AND EVENTS

Finance Lease Agreement

On 21 May 2012, Shanxi Qinshui Shuntai Energy Development Company Limited ("Qinshui Energy"), a direct wholly-owned subsidiary of the Company entered into a conditional finance lease agreement in relation to the sale and lease of equipments ("Finance Lease Agreement") with CIMC Capital Limited ("CIMC"), pursuant to which, (i) Qinshui Energy conditionally agreed to sell, and CIMC conditionally agreed to purchase certain liquefied natural gas equipments for a total consideration of RMB95,000,000 (approximately HK$117,283,950.62); and (ii) Qinshui Energy conditionally agreed to lease from CIMC, and CIMC conditionally agreed to lease to Qinshui Energy, the said equipments for a total lease consideration of RMB114,570,000 (approximately HK$141,444,444.44) for a term of 36 months by monthly installments inclusive of interest with a lump sum handling fee in the sum of RMB950,000 (approximately HK$1,172,839.51). The lease consideration may be adjusted according to the floating lending interest rate to be promulgated by People's Bank of China from time to time.

As the applicable percentage ratios of the Finance Lease Agreement exceed 25% but less than 100%, the Finance Lease Agreement constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules. Therefore, the Finance Lease Agreement is subject to the requirements of announcement and the approval of the shareholders by way of poll at the extraordinary general meeting of the Company.

For details, please refer to the announcements of the Company dated 21 May 2012, 28 June 2012, 30 August 2012, 18 October 2012 and 25 February 2013 respectively.

Non-legally Binding Cooperation Agreement

On 28 February 2012, the Company entered into a framework agreement (the "Cooperation Agreement") to cooperate with Longmen Hui Cheng Investment Limited (龍門匯成投資有限公司) ("Longmen Hui Cheng"). Pursuant to the Cooperation Agreement, the Company wished to closely co-operate with Longmen Hui Cheng in all areas and intends to form a strategic alliance with Longmen Hui Cheng in China's coalbed methane gas sector to form a vertically integrated alliance to cover all the upstream, midstream and downstream areas in the coalbed methane gas value chain (the "Cooperation Project"). Both parties have agreed that a joint working group will be formed immediately following the signing of the Cooperation Agreement to push forward the subsequent signing of a formal agreement. As at the date of this report, no binding agreement in relation to the Cooperation Project has been entered into and the Cooperation Project may or may not proceed. For details, please refer to the announcement of the Company dated 29 February 2012.

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

As at 31 December 2012, 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 Zhong Sheng	Interest of controlled corporation	Corporate interest	120,790,000 *(Note 1)*	3.06%
Mr. Wang Zhong Sheng	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. Fu Shou Gang	Beneficial Owner	Personal	2,500,000 *(Note 4)*	0.06%

Notes:

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

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

2. Out of the 2,102,512,887 long positions, Mr. Wang Zhong Sheng 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. 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. 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 Zhong Sheng	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 Zhong Sheng owns 100% interest in the issued share capital of Jumbo Lane Investments Limited.

Save as disclosed above, as at 31 December 2012, 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 2012, 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 Zhong Sheng *(Note 1)*	120,790,000	Interest of controlled corporation	3.06%
Mr. Wang Zhong Sheng *(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%

Notes:

1. Such shares represent the same parcel of shares owned by Jumbo Lane Investments Limited. Mr. Wang Zhong Sheng is the beneficial owner of the 100% of the total issued share capital of Jumbo Lane Investments Limited. Mr. Wang Zhong Sheng 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 Zhong Sheng 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 Zhong Sheng) 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 Zhong Sheng) is deemed to be interested in her spouse's interest in the Company pursuant to the SFO.

Save as disclosed above, as at 31 December 2012 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 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 31 December 2012	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 (retired on 26 November 2012)	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	43,690,000	—	—	(3,950,000)	39,740,000	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
	253,710,000	—	—	(3,950,000)	249,760,000				

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 2012	0.495	253,710,000
Granted during the period	—	—
Outstanding as at 31 December 2012	0.495	249,760,000
Exercisable as at 31 December 2012	0.495	229,990,000

The options outstanding as at 31 December 2012 had an exercise price of HK$0.495 and a weighted average remaining contractual life of 8.4 years.

CONVERTIBLE SECURITIES, WARRANTS OR SIMILAR RIGHTS

As of 31 December 2012, the Company had outstanding convertible bonds convertible to 1,119,230,769 conversion shares and outstanding options to subscribe for 249,760,000 shares under the share option scheme adopted on 18 May 2011 and became effective from 30 May 2011. Details are disclosed in page 26 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

During the year, 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. Kwok Shun Tim was appointed as the executive Director of the Company with effect from 2 January 2013.

POST BALANCE SHEET EVENT

On 14 March 2013, the Company and the Placing Agent entered into the Placing Agreement on 14 March 2013, whereby the Company has conditionally agreed to place, through the Placing Agent, on a best efforts basis, a maximum of 400,000,000 Placing Shares to independent investors at a price of HK$0.25 per Placing Share. The 400,000,000 Placing Shares represent (i) approximately 9.99% of the existing issued share capital of the Company of 4,002,505,023 Shares; and (ii) approximately 9.09% of the Company's issued share capital of 4,402,505,023 Shares as enlarged by completion of the Placing. The maximum net proceeds from the Placing of approximately HK$96.4 million which will be used for the drilling of wells and natural gas pipeline construction work. This transaction has not been completed as of the date of approval of these financial statement.

AUDIT COMMITTEE AND AUDITORS

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 2012, the audit committee has held four meetings. The Group's result for the year 2012 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 2012, 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. Prior to the retirement of Mr. Feng San Li, Mr. Feng San Li was 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.

By order of the Board
China Leason CBM & Shale Gas Group Company Limited
Wang Zhong Sheng
Chairman

China, 27 March 2013

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. Kwok Shun Tim and the independent non-executive Directors are Mr. Luo Wei Kun and Ms. Pang Yuk Fong and Mr. Wang Zhi He.